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***DEBATES ON THE FUTURE OF EUROPE
DÉBATS SUR L'AVENIR DE L'EUROPE***

***Final Report
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Foreword

For the fourth consecutive year, the Institute for European Studies (IEE) of the Université Libre de Bruxelles (ULB) and the Department of Political Studies and European Governance (POL) of the College of Europe, organised a series of debates on the future of Europe.

The debate is organised by a joint committee of students, with the support of the academic teams from both partner institutions. Throughout the year, 25 students from each institution come together in thematic groups to engage in insightful discussions and reflect on the main challenges the EU is currently tackling.

This year, the student coordinators were Aurelién Amabile, Javier Bardón Ayala, Luca Maicon Vincius Bellavia, and Amparo de Zuloaga Soler.

For this fourth edition, a first meeting was held in February at the College of Europe in Bruges to allow students from each institution to meet, agree on the organisational details, and begin working in groups on the selected themes. Throughout the following months, the students carried out their research jointly and drafted the policy recommendations here presented. The topics addressed in this year's edition were the following:

- Security and Migration
- Democracy, Youth, and Culture
- Digital and Green Transition
- Economic Governance and Fiscal Policy

The second meeting took place at the Institute for European Studies, in Brussels, at the end of the academic year, on 17 June, 2024, where the students had the chance to finalise and present the proposals with the contribution of the invited high-level experts, namely:

- MEP Joao Albuquerque (Member of the European Parliament, Socialists and Democrats)
- Mr. Sebastian Berchesan (Executive Secretary at Stand Up for Europe)
- Mr. Eric Lecomte (Policy Officer at the European Commission)
- MEP Margarida Marques (Member of the European Parliament, Socialists and Democrats)
- Dr. Giacomo Orsini (Professor at ULB; Postdoctoral Researcher at Ghent University)

The policy recommendations were developed further based on the feedback received and collected in this booklet. The work of the participants can be found in the following pages of this report and will be disseminated on various platforms.

PANEL 1 – Balancing Security Challenges and Migration Realities in a Dynamic World.

Working Group Members: Ioannis Aivatidis, Luisa Brunder, Javier Bardón (moderator), Helin Bolat, Carles Castanyer, Iranda Chaki, Pietro Giacomelli, Guiseppe Giugliano, Anna Lehnert and Francisco Núñez

Introduction

As EU legislators finally agreed on the Migration and Asylum Pact on September 23, 2023, this panel has worked on the problems that either remain or have emerged with the new Pact. Migration policy, where the EU's identity is at stake, is a field of action full of complexities and contradictions. The EU norms and values call for a coordinated humanitarian attitude towards human flows. Nevertheless, the securitization perspective has been the paradigm ruling migration policy, and the new Pact reinforces such an inhuman and cruel stance.

While being critical, we wanted to be realistic. We identified the securitization of migration as an inherently inhumane way of thinking about human flows, thus preventing people-centered policy recommendations. Although we cannot change the political paradigm, we agreed to transcend it and proposed a shift from reaction to action that slowly but surely diminishes the paradigm.

Consequently, we decided to work on the following topics, which can be subdivided into two groups: externalization and socioeconomic inclusion.

On the externalization side, we will first analyze how the Pact violates the non-refoulement clause recognized in the 1951 Refugee Convention. Secondly, we will use the Memorandum of Understanding with Tunisia to study the complexities and issues of the primary externalization practice. Then, connecting externalization and inclusion, we will scrutinize the extent to which children's rights are respected at the borders and inside the EU. Finally, before concluding with the economic inclusion of third-country nationals, we will argue that the mental health of migrants presents several particular needs that require specific strategies.

The Migration and Asylum Pact

The European Union introduced the New Pact on Migration and Asylum as a significant policy change aiming to revamp migration and asylum approaches. This pact, designed to address the shortcomings of the previous system, particularly those exposed during the 2015 refugee crisis, emphasizes shared responsibility and solidarity among member states. The pact includes measures for streamlined asylum procedures, enhanced external border controls, and cooperation with non-EU countries to manage migration effectively and address its root causes (Papuc, 2021). Many of those measures have been highly criticized, but on top of that, we have identified a significant breach of international law, which can be considered a problem of both form and substance.

The **Principle of non-refoulement** is recognized in Article 33 of the 1951 Refugee Convention and prohibits the expulsion or return ('refoulement') of refugees to any country where their life or freedom would be threatened due to race, religion, nationality, membership in a particular social group, or political opinions. Exceptions apply to refugees who threaten the security of the host country or who have been convicted of a particularly serious crime and are considered a danger to the community.

Nevertheless, the New Pact on Migration and Asylum might violate the non-refoulement clause due to several factors (Mikołajczyk, 2024):

- *Ambiguities in legal counseling.* The New Pact lacks clarity on the standard of legal support for third-country nationals, making it difficult for asylum seekers to access proper legal counsel and, therefore, increasing the risk of refoulement.
- *Border restrictions on legal support.* The Screening Regulation (2024) allows Member States to restrict access to legal counsel at borders, potentially preventing individuals from challenging decisions that could lead to refoulement.
- *Inadequate legal assistance in return procedures.* The Return Border Procedure Regulation (2024) lacks provisions for obtaining free legal assistance and representation, which are crucial for contesting return decisions that may result in refoulement.
- *Limitations on legal representation.* While the Asylum Procedures Regulation (2024) introduces provisions for legal support, limitations such as conditional free legal assistance could hinder individuals from effectively challenging decisions leading to refoulement.
- *Uneven distribution of legal support.* Disparities in legal support across Member States could lead to uneven protection of asylum seekers' rights, increasing the risk of refoulement in certain regions.

To avoid the breach of the principle of non-refoulement we recommend to:

- Enhancing Clarity and Accessibility of Legal Counselling:
 - *Clear Guidelines:* Create comprehensive and transparent guidelines outlining the standards of legal support for third-country nationals throughout the asylum process. This involves establishing clear procedures for accessing legal counsel and providing information on rights and procedures.
 - *Accessible Information:* Ensure that all asylum seekers receive comprehensive and understandable information about their rights and the asylum process in a language they understand. This may involve providing written materials, interpreter services, and accessible formats.
 - *Increased Funding:* Allocate additional funding and resources to legal aid organizations to ensure they can meet the demand for services, especially in areas with high numbers of asylum seekers. This includes funding for staffing, training, and outreach efforts.
- Enhancing Legal Support in Return Procedures:

- *Ensuring Free Legal Assistance*: Modify regulations to explicitly ensure free legal assistance and representation for all individuals appealing return decisions. This guarantees that asylum seekers have access to legal support regardless of their financial situation.
- *Timely Access*: Make sure that legal assistance is provided promptly and sufficiently before any return decision is carried out to allow for an effective challenge. This involves establishing clear timeframes and procedures for accessing legal support in return procedures.
- Ensure Uniform and High-Quality Legal Support Across Member States:
 - Implement EU-wide standards for the provision of legal support to ensure uniformity and prevent discrepancies in the level of protection afforded to asylum seekers across different Member States. This involves establishing minimum requirements for legal assistance and monitoring compliance.
 - Establish a monitoring mechanism to regularly assess and report on the quality and availability of legal support in all Member States. This includes collecting data, conducting evaluations, and taking corrective actions for non-compliance.

Migration Partnerships with Third Countries

Another issue to be analyzed for this special occasion is external migration policy and its instruments. The EU external migration policy can be defined as “co-operation with third countries (countries of origin and transit) in the field of [...] migration” (Kaunert & Leonard, 2018). It is a field that has been developing since the European Council Tampere Conclusions in 1999. Throughout the years, the EU has introduced a wide range of policy instruments like the Mobility Partnerships or the Partnership Compact in an attempt to engage with third countries.

The latest EU initiative in the field has been the already mentioned New Pact, which enhances the external dimension of migration by calling for more “comprehensive, balanced and tailor-made” partnerships with third countries (European Commission 2020a). In practice, this approach implies the creation of partnerships that link the external migration policy with other wider EU policies, which could serve as incentives to lock-in third countries to cooperate with the EU. Furthermore, the recently adopted Regulation on Asylum and Migration Management, prioritizes cooperation on legal migration, supporting the creation of operational capacities in third countries, fighting irregular migration and smuggling operations, as well as addressing migration’s root causes. All of it has been put into practice through partnerships with several countries. In order to analyse their strengths and weaknesses, we decided to use a **case study: the Memorandum of Understanding (MoU) with Tunisia**.

The agreement was the first in a series of similar measures and took the form of a non-binding arrangement. Signed in July 2023, it promises direct budgetary support and acceleration of EU funding from the side of the Union regarding macroeconomic stability, economy and trade, renewable energies, and people-to-people contacts in exchange for cooperation on migration control from the side of Tunisia.

This is clearly a form of informalization, as it is difficult to determine the bindingness of the MoU. On the one side, questions have arisen about the possibility of pledging funding via an informal arrangement in the first place. It is also unclear how far the MoU fits within the existing cooperation between the Union and Tunisia in the form of e.g. the EU-Tunisia Association Agreement or the Mobility Partnership. On the other, there are claims of Human Rights Violations against migrants from the side of the Tunisian government. If substantiated, the Union should not be able to disperse funds to the Tunisian government. However, no Human Rights Impact Assessment has been made (European Ombudsman). Lastly, a problematic matter of institutional balance: the adoption via the European Commission lacks the scrutiny of the Parliament and the Council.

Such instances of externalisation of migration management have been severely publicised and criticised. Currently embedded within the wider framework of the New Pact on Migration and Asylum, externalisation has become a paradigmatic approach to European migration management. As such, it is pertinent to formulate the following policy recommendations.

To deepen the understanding, effectiveness, and accountability, we recommend to:

- Need for increased monitoring from the EU:
 - Human Rights Violations & Pushbacks: Enhanced border control measures, such as increased surveillance and joint border patrols from Tunisia, can lead to violations of migrants' rights. There are concerns that these measures might result in the use of excessive force, arbitrary detention, and denial of access to asylum procedures for individuals who have legitimate claims for protection. Additionally, instances of pushbacks, where migrants are forcibly returned to Tunisia without proper assessment of their asylum claims, have been reported. Such actions violate international refugee and human rights laws, and the MoUs may not provide sufficient safeguards to prevent these practices. The EU should, thus, put in place more intensive monitoring systems to control the due diligence of partners in complying with all human rights prerogatives.
 - Coerced Returns: The distinction between voluntary and coerced returns can be blurred. Migrants might feel pressured to return due to poor living conditions in host countries or lack of legal status, raising ethical concerns about the voluntary nature of these programs. The EU should account for this and strive for tougher control on partners.
- Need for increased support to migrants.
 - Insufficient Support: Reintegration programs often lack adequate funding and infrastructure, leading to ineffective support for returnees. Without proper vocational training, job placement services, and social support, returnees may struggle to reintegrate and may be at risk of re-migrating. The EU should destine a bigger financial envelope exclusively dedicated to improving migrants' support system.
 - Limited Scope: The legal migration pathways provided under the MoUs might not be sufficient to meet the demand. The number of visas or work permits

offered may be too few to significantly reduce irregular migration, leaving many migrants without viable legal options. The EU should reassess how to deal with migrants seeking a legal passage in order to provide alternatives to illegal migration.

- Need for accountability and stakeholder involvement.
 - Lack of Accountability & Stakeholder Involvement: Ensuring accountability in the implementation of the MoUs can be difficult. There is a risk that both the partners and the EU might not fully adhere to the agreed-upon commitments, especially if there is a lack of transparent monitoring mechanisms. In this sense, effective monitoring and evaluation require the involvement of independent bodies, civil society organisations, and migrant communities. Without their participation, the assessment process may lack objectivity and fail to address the concerns of affected populations. Thus, the EU needs to design mechanisms oriented at increasing accountability, both in terms of the compliance of the agreement and of respect for human rights. This should involve periodic reviews and assessments, sanctioning mechanisms for malfunctions and consensus-seeking forums for both EU, partner countries and NGOs working on the matter.

Children and Minor Protection

The protection of children and minors is a paramount concern in the context of migration and asylum policies within the EU. However, the current EU Pact on Migration and Asylum has come under scrutiny for its lack of adequate safeguards for this vulnerable demographic. This section of the policy brief highlights the areas within the EU Pact that may breach international and EU law concerning the protection of children and minors. Furthermore, it provides recommendations to address these shortcomings and ensure the rights of children and minors are upheld under the UN Convention on the Rights of the Child (UNCRC) and EU law. This emphasises the necessity of aligning EU policies with established international norms and legal frameworks to safeguard the well-being and rights of children and minors in the context of migration and asylum.

The new Pact lacks any protection for children and minors. The areas where the EU might be breaching international and EU law for protection of minors and children are:

- *Setting the age limit for a child at twelve* contradicts the definition of 'child' under the UNCRC and the Court of Justice of the European Union (CJEU) case law, which states that anyone under eighteen is a child. The new system treats asylum-seeking children primarily as asylum seekers rather than children, who should be protected foremost by international law concerning their protection. It also leaves minors in a highly vulnerable situation without any protection, stripping them of their rights (Duic et Čepo, 2021).
- *The Screening Regulation* mandates the screening of children at external borders, which violates the UNCRC. This could lead to the systematic detention of families with children and unaccompanied children (Eurochild, 2024).

- *Relocation* decisions are crucial for the life and safety of the child, necessitating a formal, careful assessment supported by effective, timely cross-border cooperation and additional procedural safeguards. Many organizations agree that unaccompanied children and minors should be excluded from return process sponsorship, as migration control should not outweigh the principle of the best interest of the child.
- Research at migrant camps has shown that children often struggle to prove their age due to a lack of documentation and language barriers. As a result, authorities subject them to invasive and potentially traumatizing examinations to determine their age. These methods frequently yield unreliable results, increasing the risk that children may be mistakenly treated as adults (Eurochild, 2024). The *inclusion of ‘coercion’ of children* in the new pact in case they refuse to oblige under the screening regulation can lead to increased and unregulated physical and mental violations of minors, which further leads to violation of children's rights.

The new Pact is in clear violation of the UN Convention on the Rights of the Child where a child is described as “*any human below the age of eighteen years old*” (United Nations, 1989). All EU Member States are party to this convention. On 15 December 2023, the UN Special Rapporteur on Migration, Gehad Madi wrote to Ursula Von der Leyen, Charles Michel, and Roberto Metsola about the violation of children's rights with the new Pact on Migration and Asylum. With the absence of exemption of children under the age of 18 from the border procedure and detainment, the EU and the EU Member States are clearly breaking international law and EU law, since the provisions for children's rights are also enshrined in EU primary and secondary law.

Recommendations to avoid violation of UNCRC and the rights of children and minors:

- Abiding by the convention of UNCRC to which all EU member states are a party and EU law, the age of children has to be increased to 18 or there has to be special provision given to minors between the ages of 12 and 18 given their vulnerable situation.
- The screening regulation must be modified to adapt to the needs of children and minors, children and minors should be exempt, especially from detention.
- Relocation of children, minors, and unaccompanied minors/children should be done under the strict supervision of childcare experts who make sure that the relocated countries' reception conditions are safe for the minor.
- Children and minors should be exempt from the clause of ‘coercion’, in no given situation should any physical or mental force be used against a child, in the case of children who do not cooperate easily, more time and childcare experts should be allotted to the case.
- Creation of a department that would exclusively focus on and handle cases of children and minor refugees.

Migrants' mental health

With the COVID-19 crisis, health (and mental health in particular) has gained much more attention in the public debate. This has for example led to the adoption of the European Commission's Communication on a comprehensive approach to mental health (European Commission, 2023a) in June 2023. Turning towards the social and economic inclusion of migrants, we consider it relevant to start by focusing on their mental health since they are particularly at risk of suffering from mental distress.

Refugees often experience traumatizing events in their home countries that force them to leave, and migrants in general are faced with difficult situations during and after their journey to the EU (Mental Health Europe [MHE] & European Public Health Alliance [EPHA], 2020). Moreover, they have to overcome specific obstacles to access mental health care, linked to linguistic and cultural barriers. These come on top of a general shortage in mental health care in many European countries (Bencharif, 2022). In its Action plan on Integration and Inclusion 2021-2027, the Commission acknowledges this difficult mental health situation of many migrants and sets the goal for migrants to be "informed about their rights and have equal access to regular health care services, including mental health services" (European Commission, 2020b, p. 13).

However, when considering the overall action of the EU in terms of migration policy, a paradoxical situation seems to unfold: on the one hand, the Commission highlights migrants' mental health risks and proposes efforts to alleviate them by supporting migrants' access to mental health care (European Commission, 2020b). On the other hand, the new Pact on Migration and Asylum, adopted by the Council in May 2024, is criticized by migration experts for jeopardizing child welfare and human rights, for example by envisaging detention-like conditions in the planned centers for those seeking protection. According to these experts, the new pact prioritizes deterrence over solidarity (BR24 Redaktion, 2024). One can imagine that this new pact will thus not ease the migrants' arrival in Europe, but contribute to or even create new distressing situations, where administrative issues and insecurity about whether one will be allowed to stay already represent a mental burden. The EU's efforts to externalize border control by concluding migration deals with third countries are also prone to lead to traumatizing situations for potential migrants. We argue that the EU should stop adding up to trying circumstances for migrants, thus increasing their risk to suffer from mental health problems. Otherwise, the EU's efforts to provide better mental health care for migrants can only be a drop in the ocean.

To achieve better mental health conditions for migrants, we recommend the EU to:

- Put an end to the currently prevalent deterrence objective and replace it by a solidarity approach.
- Revise the recent Pact on Migration and Asylum to ensure that its provisions are guided by humanitarian and human rights principles.
- Continue supporting existing initiatives and efforts towards better mental health care for migrants and refugees (e.g. Mhealth4all funded by the AMIF) and create new ones, while providing sufficient funds and political support for these initiatives.

- Ensure that refugees can benefit from culturally sensitive support (MHE & EPHA, 2020) and have access to interpreters and mediators, if needed, for a mental health treatment that really helps (Mhealth4all).

Unaccompanied Minors

Unaccompanied minors are one of the most vulnerable migrant groups and, “therefore, more at risk of their freedoms and fundamental rights being infringed” (European Economic and Social Committee, 2020, p. 3). During their migration journeys, they are exposed to risks such as exploitation and trafficking (European Migration Network, 2020) and the majority of them declare that they “have experienced violence, torture, or abuse” (Euro-Med Human Rights Monitor, 2023, p. 42).

Unfortunately, “once they finally reach Europe, suffering does not stop” (Derluyn et al., 2022, p. 49). According to EU sources, unaccompanied minors on European soil face higher rates of school dropout due to language barriers and prior traumas. Additionally, they encounter significant challenges in accessing the labor market because of the absence of support networks. Discrimination and xenophobia are frequent issues that exacerbate their social exclusion. As we have seen, they also have limited access to adequate healthcare services. All this significantly hinders their ability to integrate into host societies (European Union Agency for Asylum, 2020) (European Website on Integration, 2024).

Similarly to mental health, the EU recognizes this problem in the Action Plan on Integration and Inclusion 2021-2027, stating that “children will need additional protective support, not least when they are unaccompanied”, and proposing the need to “develop support programs that are specific to unaccompanied minors” (European Commission, 2020b, p. 6, 10).

However, the well-intentioned words appear to remain on the surface. NGOs, researchers and even institutions within the EU itself, such as the European Economic and Social Committee (EESC), believe that the European Union could assume a more substantive role in addressing the issue of unaccompanied migrant children.

Firstly, the absence of a precise legal framework has been identified as a significant deficiency faced by Member States, resulting in considerable difficulties in managing the problem coherently and concertedly. The reality is that within Member States, the situation of unaccompanied minors is characterized by substantial disparities in the legislation that defines how they must be treated and the procedures they undergo (such as age determination, guardianship, and rights), which has direct consequences on the well-being of children (European Economic and Social Committee, 2020).

The lack of proper emotional support has been identified as another risk faced by unaccompanied minors in their integration process. Consequently, they often decide to leave national protection systems and move on their own to try to reach family members and/or friends who often reside in other EU territories. “As they disappear from the radars, they frequently end up facing new dangers” (Derluyn et al., 2022, p. 49).

For those who had not left the protection systems, upon reaching the age of 18, it is the administration who abandons them —support measures cease— resulting in their disappearance from the radar once again without it being possible to affirm that their

integration process has progressed (European Migration Network, 2022) (European Commission, 2020b) (Derluyn et al., 2022).

To improve the integration and living conditions of unaccompanied minors, we recommend:

- Urge the European Commission draft a Directive concerning the protection of unaccompanied minors, as requested by the EESC in 2020, providing a precise legal framework enabling Member States to address this issue collectively, eliminate disparities between countries, serve the best interests of the child, and facilitate their integration. “This is particularly clear given the deplorable situation of many unaccompanied minors, which children's rights organizations across Europe have decried” (European Economic and Social Committee, 2020, p. 3).
- Request the EU to consider the possibility of implementing community-level training programs (or at least the creation of common standards) for guardians, mediators, social workers, psychologists, etc., aimed at ensuring that MS have qualified and well-trained personnel capable of providing unaccompanied minors with proper emotional support, thus preventing them from disappearing from the radar and potentially facing new dangers (Derluyn et al., 2022).
- The EU urges Member States to extend long-term care even after unaccompanied minors turn 18, both to continue aiding their integration process and to prevent them from disappearing from the radar and potentially facing new dangers (Derluyn et al., 2022).

Economic integration

Lastly, we would like to reflect on the economic integration of migrants since it is the crucial factor for long-term sustainable integration. In this regard, the New Pact aims to ensure “that the EU legal migration framework benefits European societies and economies, by attracting talent and facilitating the admission of workers of different skills levels the EU needs and the intra-EU mobility of third-country workers already in the EU” (European Commission, 2021).

Although it keeps avoiding addressing the issue of irregular migration, thus not providing a comprehensive approach to economic integration of third country nationals (TCNs), it recognizes the double-sided benefits from the economic integration of migrants. Host countries improve the functioning of their labour markets and accelerate economic growth by reinforcing labour market integration policies. Manufacturing employers, for example, face a labour shortage of 28% which affects the economic growth of the member states (European Commission, 2023b). And, on the other side, TCNs (early) integration ensures their effective and sustainable long-term inclusion in the host societies, and a failure to do so may have detrimental effects over a lifetime (International Labour Organization, 2018). Nevertheless, migrant workers (especially migrant women) have a lower participation in the job market (2pp), are more often employed in low-skilled and low-paid occupations facing persistent labour shortages (9pp), face difficulties for the recognition of their skills and formal qualifications, and are more often affected by discrimination when in employment (8,6% compared to 5,4% for the native population). (European Commission, 2023b)

Economic integration is more than just employment, it encompasses the full integration of migrants into the host country's economy, ensuring they have equitable access to opportunities and resources. Yet, the EU can only support member states in the economic integration of migrants by providing funding, fostering relevant partnerships, and developing guidance. Thus, to maximize the effectiveness of these efforts, it is crucial to address certain gaps in the current legislative framework. Without tackling these issues, the support provided by the EU may fall short of its potential impact.

In particular we have identified three different categories of problems that the current legislative framework does not tackle in a satisfying way, namely skills validation, job-market needs and enhancing migrants' rights and opportunities

First, skills validation is essential for recognizing and accrediting the diverse qualifications and experiences that migrants bring with them. Host countries often overlook them, leading to underemployment and wasted human capital.

Second, addressing job-market needs ensures that the labour market effectively integrates migrants, filling skill shortages and matching workers to suitable employment opportunities.

Finally, most migrants still face situations of exploitation, discrimination and social exclusion. Some measures are required in order to enhance migrants' rights and opportunities in order to promote fair treatment and equal opportunities for personal and professional growth.

Together, the following policy recommendations, seek to create a more inclusive, equitable labour market. Recognising the impossibility of a full transformation of the economic model and the deep institutional and cultural roots of inequalities, we will focus on maximising the potential of migrant workers and fostering social cohesion.

In order to create a more inclusive and equitable labour market we recommend to:

- Skills validation:
 - Streamline the process for recognizing foreign credentials and experience, reducing bureaucratic hurdles and ensuring transparency.
 - Bridging Programs: Implement bridging programs that allow immigrants to complete any additional requirements needed to have their credentials recognized locally.
 - Create programs to assess and certify the skills and qualifications immigrants acquired abroad, facilitating their entry into the job market at a level commensurate with their abilities.
- Job-market needs
 - EU database: develop an EU database on which national employment centers can upload a profile with the skills and qualifications of immigrants. This centralized database can be used by employers across member states to identify and recruit talent that matches their needs.
- Migrants rights and opportunities
 - Access to Financing: Enhance access to microloans, grants, and other financial resources to support immigrant entrepreneurs in starting and growing their businesses. Encourage participation in Horizon Europe and the

European Social Fund Plus (ESF+), which offers grants for innovative projects and research. The rise of self-employment among immigrants has become a notable trend, providing an alternative strategy for labor market integration amidst the challenges many migrants face in formal employment. While this development positively impacts the economy, it presents significant risks and demands for migrants, as most "ethnic" businesses remain small-scale, generate limited income, and often cater to local or specific ethnic markets (Edo & Ozguzel, 2024).

- Specific for asylum seekers: Harmonize administrative requirements for asylum seekers (such as work permits, employment licences, etc.) in order to improve their immediate access to the labour market in all member states. The measures should include language courses in order to overcome the language barriers.

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PANEL 2 – Nurturing a Cohesive Democratic European Tomorrow through Values, Education, Culture and Youth Engagement

Working Group Members: Luca Maicon Vinicius Bellavia (Moderator), Benjamin Owen, Rocio Rivera Torrente, Tim Reding, Viktória Zaričňáková, Bastien Derwael, Ferran Travé, Benedetta Scotti

Introduction

Underpinning the future of a cohesive and democratic Europe is one of the most pressing challenges faced by the European Union today. In an increasingly diverse and politically complex landscape, it is crucial to strengthen the bonds that unite European citizens through a shared commitment to common values, education, culture, and youth engagement. This initiative aims to establish a framework that nurtures these elements, recognizing their vital role in shaping an integrated European identity and fostering active participation in democratic processes.

Education, both formal and informal, is a cornerstone of this endeavor. By integrating European themes into educational curricula and developing interactive, youth-targeted content, this initiative seeks to ensure that young Europeans are well-informed about the EU's history, values, and institutional structure. The goal is to cultivate a sense of belonging to a broader European community, encouraging youth to engage more actively in civic life and political discourse.

Moreover, the initiative places significant emphasis on youth engagement and advocacy. Establishing direct channels for young people to influence policy decisions and facilitating meaningful dialogue between generations are key strategies for ensuring that youth perspectives are incorporated into the shaping of Europe's future. This approach not only empowers young people but also enhances the legitimacy and responsiveness of democratic institutions.

Cultural exchange is another critical component, particularly in engaging peripheral and remote regions of Europe. By promoting regional engagement and celebrating cultural diversity, the initiative aims to bridge gaps between different parts of Europe, fostering unity and mutual understanding. The establishment of EU Cultural and Information Hubs and targeted outreach campaigns will ensure that all regions are represented and have a voice in European affairs.

Language education also plays a vital role in this vision of a unified Europe. By reducing language barriers through enhanced and standardized language education programs, the initiative promotes greater mobility and inclusivity, enabling students from diverse backgrounds to fully participate in the European project.

Overall, this initiative seeks to create a cohesive framework that integrates education, culture, and youth engagement as key drivers of European integration. By fostering these elements, the initiative aspires to build a more inclusive, democratic, and united Europe, where all citizens are actively involved in shaping the future of the Union.

Informal Education

Informal education serves as a powerful tool for nurturing a well-informed, engaged, and empowered youth, which is essential for fostering a cohesive and democratic European future (European Youth Forum, 2013). In the context of the European Union, informal education initiatives are designed to bridge the gap between young people and the often complex and distant structures of the EU. These initiatives aim to make the benefits and values of the EU more accessible and relatable to the younger generation, thereby encouraging their active participation in the European project (Council of the European Union, 2022).

One of the key strategies in informal education is the creation and dissemination of interactive content tailored specifically to youth audiences across Europe. This content, which includes infographics, videos, and social media campaigns, is designed to present information about the EU in a visually compelling and easily digestible manner (Culture Action Europe, 2013). By highlighting local success stories of EU funding impacts—such as those from the Common Agricultural Policy (CAP) or the European Social Fund—these initiatives not only educate young people about the tangible benefits of the EU but also foster a deeper connection to their local communities and the broader European context (European Movement International, Year). Collaborations with local Members of the European Parliament (MEPs), European Commission representations, and civil society leaders are crucial in ensuring that this content is localized and relevant, thereby enhancing its impact and resonance among young audiences (Assembly of European Regions, n.d.).

Additionally, the implementation of programs like the 'Erasmus+ Showcase' within informal education settings plays a significant role in empowering young people, particularly those with fewer opportunities (European Union, 2023). By featuring past beneficiaries of EU mobility funds alongside local and regional authorities, this initiative showcases the real-world social and professional benefits of participating in Erasmus+ experiences (European Parliamentary Research Service, Year). Through peer-to-peer outreach, participants share personal stories and insights that demonstrate how international mobility has enriched their lives and careers. These narratives are powerful tools for inspiring broader participation in EU mobility projects, promoting greater social inclusion, and fostering a sense of European identity at the grassroots level (Inter Arts, Year).

Youth engagement and advocacy are also central components of informal education. Establishing dedicated youth advisory structures within government institutions and political parties across Europe provides young people with direct channels to influence policy decisions and processes (Reflection Group on Youth Participation, Year). These structures empower youth to voice their perspectives and priorities, ensuring their inclusion in shaping policies that directly affect them. In parallel, dialogue programs are initiated to facilitate meaningful interactions between decision-makers and young people, fostering mutual understanding, transparency, and respect for diverse viewpoints (S&D CULT, Year). This

approach not only strengthens democratic governance but also bridges the gap between generations, enhancing accountability in political decision-making (Zerka, 2023).

Moreover, the investment in inclusive youth centers, community hubs, and online platforms as accessible venues for young people to gather and mobilize around social and political initiatives is vital (Cultural Action Europe, European Cultural Foundation, Europa Nostra, & European Heritage Alliance, 2020). These spaces support grassroots projects led by youth, addressing pressing societal issues such as climate action and social justice. By providing funding, technical assistance, and networking opportunities, these initiatives amplify the impact of youth-led projects and promote a culture of transparency and democratic participation. The use of information and communication technologies (ICTs) and social media platforms further facilitates virtual civic engagement, allowing young citizens to connect and collaborate across borders, thus reinforcing their role as active participants in the democratic process (Malinov, 2021).

Informal education in the EU context is not just about imparting knowledge; it is about empowering young people to become active, informed, and engaged citizens. Through innovative content creation, youth engagement strategies, and supportive infrastructures, these initiatives lay the foundation for a more cohesive, inclusive, and democratic Europe (Moravcsik, 2008).

Recommendations:

– Content Creation and Dissemination:

- **Develop and deploy interactive content**, such as infographics, videos, and engaging social media campaigns, specifically **tailored to youth audiences across Europe**. This initiative aims to transcend traditional political engagement barriers by presenting accessible and visually compelling information about the EU's benefits. By partnering with local MEPs, European Commission representations, and civil society leaders, focus on creating localized content that highlights local success stories of EU funding impacts (e.g., CAP, European Social Fund). This approach not only educates young people about the EU's role in their communities but also fosters active learning through direct engagement with key EU initiatives and stakeholders.
- **Implement an 'Erasmus+ Showcase' program within informal education settings, featuring past beneficiaries of EU mobility funds alongside local/regional authorities**. This initiative will empower young people, including those with fewer opportunities, by showcasing the tangible social and professional benefits of Erasmus+ experiences. Through peer-to-peer outreach, participants will share personal stories and insights, demonstrating how international mobility has enriched their lives and careers. By leveraging these narratives, this program aims to inspire broader participation in EU mobility projects among local youth, thereby promoting greater social inclusion and European integration at the grassroots level.

- **Youth Engagement and Advocacy**
 - **Establish dedicated youth advisory structures within government institutions and political parties across Europe to provide direct channels for young people to influence policy decisions and processes.** These structures will empower youth to voice their perspectives and priorities, ensuring their inclusion in shaping policies that affect them. Additionally, initiate dialogue programs that facilitate meaningful interactions between decision-makers and youth, fostering mutual understanding, transparency, and respect for diverse viewpoints. This approach aims to strengthen democratic governance by bridging the gap between generations and enhancing accountability in political decision-making.
 - **Invest in the establishment of inclusive youth centers, community hubs, and online platforms as accessible venues for young people to gather, organize, and mobilize around social and political initiatives.** Support grassroots projects led by youth addressing pressing societal issues, providing funding, technical assistance, and networking opportunities to amplify their impact. Furthermore, promote regional and thematic youth networks focusing on areas like climate action and social justice, enhancing their advocacy efforts and organizational capacity. By leveraging ICTs and social media platforms, facilitate virtual civic engagement and mobilization among young citizens, promoting a culture of transparency and democratic participation. This comprehensive approach includes robust monitoring and evaluation mechanisms to assess the effectiveness of youth engagement initiatives, ensuring continuous improvement and innovation based on feedback from participants and stakeholders.

Formal Education

Formal education plays a crucial role in shaping young Europeans' understanding of the European Union, its values, and its significance in their lives (European Movement International, 2024). Integrating EU-related topics into educational curricula across Member States is essential for fostering a well-informed, engaged citizenry capable of actively participating in the European project (Council of the European Union, 2022). By embedding EU aspects into formal education, the EU can nurture a generation that is not only knowledgeable about its institutional framework but also committed to the ideals of European integration and cooperation (European Union, 2023).

A key focus of formal education in this context is the integration of EU-related content into school curricula at all levels (European Parliamentary Research Service, 2024). Conducting a comprehensive review of educational programs across EU Member States, guided by the Directorate-General for Education (DG EAC), will identify best practices and successful models for integrating European topics (Culture Action Europe, 2013). This initiative seeks to establish benchmarks that other countries can adopt, ensuring a consistent and effective

approach to teaching about the EU. By expanding civics classes to include European political parties, institutions, and policies, students will gain a more holistic understanding of governance that transcends national borders, thus fostering a European public sphere from an early age (European Youth Forum, 2013).

Designing age-appropriate educational content is another critical component of this strategy. Tailoring materials to different educational levels—primary, secondary, and higher education—ensures that students progressively build their understanding of the EU's institutional architecture and policies (S&D CULT, 2024). Collaboration with educational institutions is vital to update curricula or introduce dedicated courses on European integration. Additionally, providing workshops and training for educators will equip them with the skills needed to teach EU-related content effectively (European Movement International, 2024). Enhancing student engagement through direct interactions with EU professionals, school visits, and simulations like the Model European Parliament, as well as organizing student field trips to EU institutions, will further deepen their understanding of how the EU functions and its impact on their lives (Assembly of European Regions, n.d.).

Language education is another crucial aspect of formal education that supports EU integration (European Union, 2008). Coordinating the implementation of credit-bearing language modules at universities across Europe addresses language barriers and ensures that students achieve the required Common European Framework of Reference (CEFR) levels (European Union, 2002). Developing an EU-wide language education framework will standardize guidelines for these modules, promoting consistency in language proficiency levels across Member States. By allocating resources from EU programs like Erasmus+, Horizon Europe, and the European Social Fund, the EU can support language education initiatives that enhance students' mobility and employability within the Union (Inter Arts, 2008). Promoting knowledge exchange and collaboration among universities through exchange programs for language educators and students further enriches the quality of language education (Malinov, 2021).

Moreover, enhancing the accessibility and quality of language education is vital for ensuring that all students, regardless of their financial situation, can benefit from these opportunities (Moravcsik, 2008). Transitioning from traditional grammar-focused instruction to a communicative approach in language teaching will make language learning more engaging and relevant to students by connecting it to real-world applications (Zerka, 2023). Integrating digital tools and project-based learning into classroom activities will further personalize and enhance the learning experience. Establishing scholarships, grant programs, and community language exchange initiatives will make language education more accessible, particularly for students facing financial hardships (Cultural Action Europe, European Cultural Foundation, Europa Nostra, & European Heritage Alliance, 2020).

Finally, expanding and enhancing the Erasmus+ program is essential for promoting student mobility and cross-border collaboration (Reflection Group on Youth Participation, 2024). By increasing resources to support economically disadvantaged students and focusing on Member States with lower participation rates, the EU can make the Erasmus+ experience more inclusive and representative of Europe's diversity (European Movement International, 2024). Developing digital platforms for international collaboration and academic projects will complement these efforts, providing students with opportunities to engage with their peers across borders and fostering a deeper sense of European identity (S&D CULT, 2024).

In summary, integrating EU-related content into formal education, improving language education, and expanding student mobility programs are essential strategies for cultivating a generation of young Europeans who are well-versed in EU matters and committed to the European project. By investing in these areas, the EU can ensure that its future leaders are not only knowledgeable but also deeply connected to the values and ideals that underpin European integration (European Movement International, 2024; European Union, 2023).

Recommendations:

– Curricula integration

- **Conduct a comprehensive review of educational programs across EU Member States under the auspices of the Directorate-General for Education (DG EAC) to identify and establish best practices in integrating EU-related topics into formal education.** Highlight successful models that can serve as benchmarks for other countries seeking to enhance their educational content on European integration. Develop a transversal approach to incorporate EU aspects into civics classes, expanding beyond national politics to include European political parties, institutions, and policies. This initiative aims to foster a European public sphere by familiarizing students early on with the EU's institutional framework, history, values, and policies.
- **Design educational content tailored to different age groups across primary, secondary, and higher education levels, ensuring a progressive understanding of the EU's institutional architecture and policies.** Collaborate closely with educational institutions to update curricula or introduce dedicated courses on European integration. Provide workshops and training for educators to effectively teach EU-related content, leveraging communication strategies used by European Commission representations and European Parliament Liaison Offices (EPLOs). Facilitate direct interactions between students and EU professionals through school visits and simulations like the Model European Parliament, enhancing student engagement and understanding of EU functions. Promote student field trips to EU institutions and agencies across various Member States and neighboring countries to offer a comprehensive view of EU operations. Additionally, engage influencers from diverse fields to amplify awareness and understanding of EU-related issues among younger demographics through their respective platforms.

– Language Education Coordinator

- **Coordinate the implementation of credit-bearing language modules at universities across Europe to address language barriers and ensure students attain the required Common European Framework of Reference (CEFR) levels.** Explore options to expand language course offerings, encouraging universities to enhance existing modules and introduce

new ones. Develop and promote an EU-wide language education framework that standardizes guidelines for credit-bearing modules, facilitating consistency in language proficiency levels. This framework will be collaboratively drafted through multilateral dialogues involving university representatives, language education specialists, and policymakers. Gather feedback from universities through information forums, workshops, and seminars to refine and improve the framework continuously.

- **Allocate resources from EU programs such as Erasmus+, Horizon Europe, and the European Social Fund to support language education initiatives.** Provide guidance and assistance to universities in the grant application process to increase their participation and success rates. Encourage universities to innovate in language education by developing new courses and improving existing ones. Promote knowledge exchange and collaboration among universities through exchange programs for language educators and students. Establish an online platform where universities can share resources, materials, and best practices related to language education, fostering a cohesive and high-quality approach across Member States. Recognize the critical role of language education in reducing barriers to work mobility within Europe, emphasizing the importance of accessible and high-quality language education initiatives.

– **Accessibility and Quality Enhancement**

- **Transition from traditional grammar-focused instruction to a communicative approach in language teaching, emphasizing speaking, listening, reading, and writing in authentic contexts.** This shift aims to increase engagement and relevance for young learners by connecting language learning directly to real-world applications. Integrate educational apps, games, and online resources into classroom activities to supplement learning and provide personalized practice opportunities. Offer courses to educators to master digital tools, enhancing their ability to incorporate technological resources effectively into language education. Implement project-based learning with tasks that require students to use the target language for research, collaboration, and presentations, fostering deeper understanding and inspiring innovative ideas.
- **Establish targeted scholarship and grant programs aimed at students facing financial hardship, specifically to cover language course fees.** Provide online and blended learning options that combine virtual modules with in-person classes, offering flexibility and reducing costs associated with traditional classroom settings. Develop community language exchange programs that pair native speakers with learners for conversation practice, promoting cultural exchange and providing free language learning

opportunities. Train and recruit volunteer language tutors proficient in the target language to offer tutoring services at discounted or no cost to students in need, enhancing accessibility to language education resources.

– **Student Mobility Facilitator**

- **Expand and enhance the Erasmus+ program to ensure greater accessibility and participation, particularly among students facing economic challenges. Allocate increased resources to support these students, thereby promoting inclusivity and diversity within mobility experiences.** Additionally, prioritize publicity and implementation efforts in Member States with lower participation rates to broaden the program's reach and impact. Promote greater participation in Erasmus+ for Vocational Education and Training (VET) students to bridge participation gaps and foster multiculturalism and European values across all educational levels.
- **Develop digital platforms tailored for students to facilitate cross-border collaboration, academic projects, and virtual exchanges.** These platforms should serve as hubs for international discussions on EU values, democratic participation, and cultural diversity. They should also provide networking opportunities and mentoring programs, connecting students with professionals and peers who share similar interests. By leveraging digital tools, the EU can enhance educational experiences and promote European cohesion among young people across Member States.

– **Visibility and Outreach Expert**

- **To Promote Regional Engagement and Cultural Exchange in peripheral regions: Partner with local governments and institutions to establish EU Cultural and Information Hubs strategically located throughout these areas.** These hubs will feature multilingual staff and digital resources aimed at serving diverse audiences. Organize regular EU-themed festivals, workshops, and interactive exhibitions tailored to regional interests to foster cultural exchanges and promote EU-related activities. Launch localized EU awareness campaigns by conducting thorough research on regional priorities. Collaborate with local influencers, community leaders, and media outlets to develop compelling campaign content. Utilize a variety of platforms, including social media, local radio, television, and community events, to effectively communicate EU initiatives and policies to the public.
- **To enhance engagement and representation of peripheral regions in EU policy-making, the following integrated approach is proposed: Strengthen Europe Direct Information Centers by augmenting funding and resources, with a focus on remote areas, alongside comprehensive staff training to cater to local needs.** Establish dedicated liaison offices within the Committee of the Regions to facilitate direct communication between

peripheral regions and EU institutions, ensuring local insights inform policy through structured input and dialogue mechanisms. Implement a digital dashboard to monitor and assess outreach effectiveness, leveraging data on participation rates and feedback to continually refine regional engagement strategies.

- **To foster unity and sustainable development across European regions: Collaborate closely with the Assembly of European Regions (AER)** to celebrate cultural diversity and promote unity. Advocate for sustainable practices, green growth, climate action, and the conservation of natural resources across diverse regions. Enhance outreach with AER to uphold democratic principles and the rule of law through structured dialogues and policy exchanges. Promote inclusive participation of peripheral regions in AER activities, fostering collaborative projects and partnerships to address regional disparities and achieve balanced development throughout Europe. Support innovation and entrepreneurship in peripheral regions through targeted AER programs. Organize cultural exchanges, preserve heritage, and implement educational initiatives that promote European values, enhancing a sense of belonging and active engagement in European affairs among citizens of peripheral regions.

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PANEL 3 – Moving Beyond the Green and Digital Horizon: Exploring Europe's Twin Sustainable Transitions

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Introduction - Towards the Digital & Green Transition

The **digital** and **green transitions** are the foundations of Europe's future for several reasons. Both are imperative for development in the coming decades. The digital transition is crucial for the Union's international competitiveness and technological progress, while the green transition is a necessary transformation aligned with the EU's legally binding objectives and its global influence through "green leadership".

The **green transition** aims to achieve sustainability, while combatting climate change and environmental degradation.¹ At the same time, the growing significance of **digital technologies** is transforming societies and economies. Successfully managing the green and digital "**twin**" transitions is the foundation for delivering a sustainable, fair and competitive future.² There is an urgency to make both transitions happen and it is crucial that both are deployed in a joint manner. To unlock their potential and to prevent negative effects, the green and digital transitions require proactive and integrated management.³ The connection between the two transitions is clear, as the digital transition can facilitate the green transition and the former should guide the development of new technologies.

This report will examine the importance of **Twin Transition** through two case studies, addressing their positive aspects and shortcomings, with potential policy recommendations. The analysis is based on available primary and secondary sources. The selection of the **case studies** was justified by their relevance to the current legislative cycle. The first case study focuses on the **Net-Zero Industry Act**, focusing on the added value that the digital transition can provide to the green one. The contribution of the digital aspect is crucial, because it is able to adjust potential social and economic challenges that can be created by the environmental transition. In this framework, the Net-Zero Industry Act introduces some key concepts to enable the digital transition. The second case study focuses on the **ETS2** due to its significance and *paradigm-shifting* nature, as it extends to new relevant sectors and creates a new market different from the previous ETS. Additionally, since ETS2 is still in the transitional phase until it becomes fully operational in 2027, there is a window of opportunity to implement it more effectively and equitably across EU member states. It also remains a priority to reduce the potential impact of this system in consumers, especially most vulnerable households.

Case Study I: The Net Zero Industry Act As A Tool For Digital Transition

Introduction – The scope of the proposal

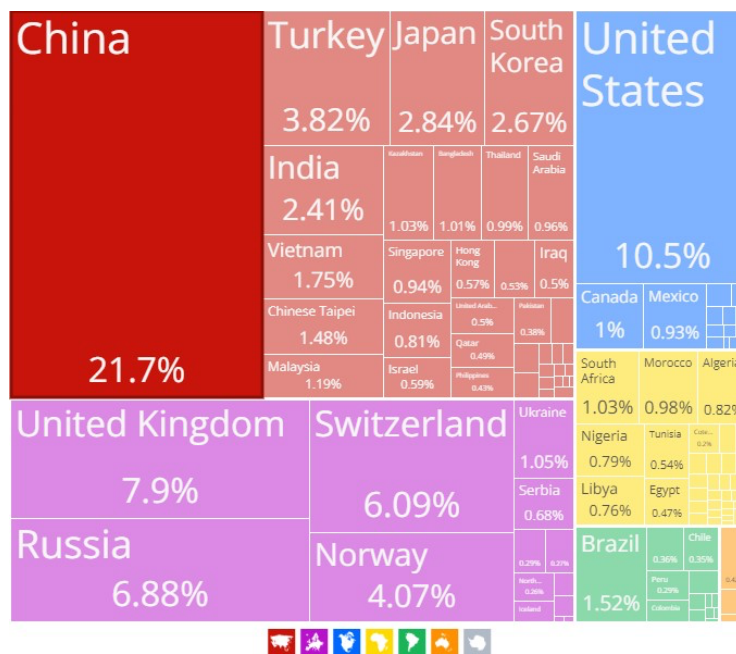
The Net Zero Industry Act (NZIA) has been proposed by the European Commission in March 2023. After an agreement found in trilogue in February 2024 it has been approved by the European Parliament plenary in April 2024, while adopted by the Council on May 27th 2024.

In this brief text we are going to understand *how digital tools can be used as a transition support for energy intensive industries, and whether the Net Zero Industry Act, or other EU relevant legislation foresees already an incentivizing legislative framework*. First, we will outline some useful data with some definitions, to understand the relevance of the debate. Then, we're going to see how the Green Deal faces the digital transition's challenge, to finally understand its interplay with the NZIA. To conclude we are going to formulate some policy recommendations, concerning what has been previously said.

The logic behind the NZIA, proposed in the form of a regulation, stands behind the fact that manufactured net-zero technologies are set to triple their annual worth by 2030, reaching an amount of 600 billion euros. The general goal, especially in a period of energy shortages from fossil fuels, is to improve the manufacturing capacity of technologies that are key to meet EU's climate neutrality goals, while ensuring the resilience of a decarbonised energy system. The main problem is that the EU is a net importer of net zero energy technologies: electric vehicles, batteries, solar panels modules, fuel cells, are for the most part imported from China. For this reason, the NZIA has the following **objectives**:

- Improving investment certainty, policy focus and coordination through the setting of clear objectives and monitoring mechanisms.
- Lowering administrative burden for developing net-zero manufacturing projects, including by streamlining administrative requirements and facilitating permitting, setting up regulatory sandboxes and ensuring access to information.
- Facilitating access to markets by specific measures to public demand through public procurement procedures and auctions, as well as through schemes to support private demand by consumers.

Figure 1: External Origins (2021)



- Facilitating and enabling carbon capture and storage projects, including by enhancing the availability of CO2 storage sites.
- Supporting innovation, including through regulatory sandboxes.
- Enhancing skills for quality job creation in net-zero technologies.
- Coordinating net-zero industrial partnerships.

According to the Observatory on Economic Complexity (OEC), in 2021, the 21% of European imports came from China. Seeing this data divided for categories of product is quite striking:

- Computers: 77%.
- Semiconductor devices: 61%.
- Electrical transformers: 53%.
- Electric batteries: 60%.
- Transmissions: 34%.
- Motor vehicles, parts and accessories: 22%.
- Integrated circuits: 13%.
- Cars: 8%.

Definitions

Having understood the general goals of this proposal, to answer to our research question is necessary to outline a few definitions:

- **Net zero technologies:** defined by the NZIA as renewable energy technologies; electricity and heat storage technologies; heat pumps; grid technologies; renewable fuels of non-biological origin technologies; sustainable alternative fuels technologies; electrolyzers and fuel cells; advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle, small modular reactors, and related best-in-class-fuels; carbon capture, utilisation, and storage technologies; and energy-system related energy efficiency technologies. They refer to the final products, specific components and specific machinery primarily used for the production of those products. They shall have reached a technology readiness level of at least 8 (Net-Zero Industry Act, 2024).
- **Technology readiness Level (TRL):** According to the Horizon Annexes the technology readiness level is an index divided in 9 levels of technology readiness. TRL 1 means that basic principles are observed. TRL 9 means that the actual system is proven in operational environment (competitive manufacturing in the case of key enabling technologies) (Horizon Europe, 2015)).
- **Energy intensive Industries (EIIs):** according to the European Commission they cover a broad range of sectors such as chemicals, steel, paper, plastics, mining, extraction and quarrying, refineries, cement, wood, rubber, non-ferrous metals, glass, and ceramics. They are responsible for 22% of EU GHG emissions, and due to their peculiar nature, they're considered as hard-to-abate (European Commission, 2020).

- **Innovative net zero technologies:** the NZIA define these technologies as those that satisfy the definition of net-zero technologies, except that they have not reached a technology readiness level of at least 8, and that comprise genuine innovation which are not currently available on the market and are advanced enough to be tested in a controlled environment (Net-Zero Industry Act, 2024).

The challenge of the digital transition

The 2020-2030 has been defined as the Digital Decade (European Commission, 2020). This definition is built on a policy programme that sets up an annual cooperation cycle to achieve common objectives and targets. To overall goals are:

- combining investments from EU budget, including from the Recovery and Resilience Facility and from the private sector,
- address gaps in the identified critical capacities of the EU,
- support an interconnected, interoperable and secure Digital Single Market.

The digital transition will therefore address many problematics linked to the lack of readiness of EU infrastructures to face this transition. The EU Digital Strategy (European Commission, 2022) tries to address EU problems through five objectives:

1. **Foster a digital culture.**
2. **Enable digital-ready EU policymaking.**
3. **Empower business-driven digital transformation.**
4. **Ensure a seamless digital landscape.**
5. **Sustain a green, secure and resilient infrastructure.**

One of the main problems of the digital transition for the EU is and will be the capacity of the EU private and public sector as a whole, to work as a system, filling the gaps in the supply chains, trying to internalize the production of certain goods and services that could face disruptions if coming from other countries, and last but not least, upskilling and reskilling of workers who might feel excluded from a fast changing work environment.

Even if the word *sustainability* is more often linked to the green transition, this is mainly because this concept is often associated with environmental sustainability. However, when the Brundtland Commission developed the concept of sustainable development, it framed it under three aspects: environmental, social, and economic. The digital transition needs to meet these three aspects to be considered as sustainable and as we are going to see the NZIA tries to face especially the economic one.

Three challenges that can be linked to each one of these aspects and the digital transition are:

- **Environmental:** Rapid advance of digital technology could result in a greater energy consumption if it is not fuelled by renewable resources (Martins, Ferreira, 2020).
- **Social:** Digital transition, with the development of new ways to conceive work, might result in rising unemployment, growing inequality and discrimination (Bianchini, Damioli, Ghisetti, 2022).
- **Economic:** Digital competitiveness exerts a systematic effect on the decision of a firm to alter its production paradigm to a more sustainable one (Chatzistamoulou,

2023). Change in the production should be improved because they foster innovation. Innovation at the moment is mainly measured through patenting activity, however this might both underrepresent innovation activities that have not a patent, and create a mechanism of patent inflation (Bianchini, Damioli, Ghisetti, 2022).

The interplay between digital transition and the Net Zero Industry Act

The role of digital transition is essential to make technologies net zero. Most studies confirm the importance of innovation and technology for emission abatement, supporting the hypothesis that green innovations contribute to carbon emission reduction (Tobelmann, Wendler, 2020) (Wang et al. 2020) (OECD, 2017; 2019).

Bianchini, Damioli and Ghisetti in their paper entitled “The Environmental effects of the twin green and digital transition” have come to several conclusions:

- There are some doubts on the effectiveness of the twin transition in supporting GHG emissions: local development of green tech reduces GHG, while local development of digital tech might have negative effects on the environment.
- Not all components of digital ecosystems are equally responsible for this negative impact on the environment: unbundling components shows that those that are most energy intensive have most detrimental effects.
- Measuring innovation in terms of patenting activity might underrepresent innovative activities and inflation patents.

The interplay between digital and green transition in itself hides the concept of sustainable development. Thanks to digital transition policy makers are still confident that they will be able to cut emissions towards the 2050 objective, without reducing the quality of life of European citizens, at the same time by keeping internationally the European “leading by example model”.

There are several potential actions that show the interplay between these two dimensions and how they are interconnected. We are going to analyse them through the three dimensions of sustainability as outlined before:

- **Environmental:** under an environmental perspective, to reduce emissions is essential that industries are able to modernize their production. In this sense intangible assets such as software able to ease the production of goods might be useful for this goal. At the same time the integration of AI and the use of big data to study industrial and consumers behaviour could be able to optimise production.
- **Social:** under a social perspective the goal should be to continuously upskill and reskill the most fragile workers. By most fragile workers we intend those that will be more affected by the use of AI and in general by the development of new technologies. Technological innovation has always brought with it the fear that the system would not be able to control it, leading to massive replacement of workers and thus unemployment. The speed of environmental and digital transformation is outpacing the rate of change in education and skills policies and their capacity to respond to emerging trends and needs in society and labour markets (OECD, 2023). According to the OECD the future developments in generative AI and robotics will require individuals to develop skills to work alongside AI systems.

- **Economic:** Digital competitiveness exerts a systematic effect on the decision of the firm to alter its production paradigm to a more sustainable one (Chatzistamoulou, 2023). A major competitiveness alongside with public investment programs such as InvestEU and Digital Europe Program (7.5 billion for the 2021-2027 period), are good tools to increase the economic viability of the digital aspects of the green transition. Another instrument, which is already integrated in the NZIA is the Green Public Procurement, which, as a market-based policy instrument, has already demonstrated to be an essential tool towards the transition. Maybe, a higher integration of digital aspects in GPP might be a good way to increase also the use of AI, IoT, and new generation tools in the green transition, to increase the abatement of emissions.

Generally speaking, if the economic and the environmental aspects are quite taken into consideration in the NZIA, even if with potential adjustments, the social aspect is almost ignored, and generally not considered as a pillar at the same level of the other two by the whole Green Deal.

Policy recommendations

The Net-Zero Industry Act is a viable tool to increase the possibility of different industries to reach the 2050 target. Moreover, alongside with other policies, such as the Chips Act and the Raw Materials Act, tries to address one of the most relevant challenges of this century for the EU, namely the ability to find internally resources that otherwise would create a strong dependency of the continent over unreliable foreign actors.

The problems addressed by the NZIA are deeply rooted around the concepts of digital and green transition and can be addressed through a broader conceptualization of sustainability, and through a deeper collaboration between public and private actors, also by a higher use of Public and Private Partnerships (PPPs).

As for the recommendations for this section, considered what has been written before we formulate the following:

1. **Monitoring system:** while it is important to increase the patenting approach, because it would create the environment for SMEs to invest in innovation, this cannot be the only tool to monitor the level of innovation in the economy, also because an inflation of patents would obtain the opposite effect. Major control in this field, and a development of new ways to monitor innovation could be useful.
2. **Procurement:** the use of procurement has demonstrated to be one of the most relevant tools to boost innovation. The problem of financing has a long history in the EU, and the fact that a Capital Markets Union has not yet been implemented certainly doesn't help, however green and digital clauses, together with social ones in procurement, will certainly have a positive effect on the transition.
3. **Upskill and reskill:** workers shall not remain behind. While it is important not to slow down the digital transition, especially if it is conceived as a tool to speed up the green one, the EU cannot ignore the necessity of taking into account employment problem that might be generated. Therefore, a Europeanization of educational and training systems, trying to keeping them more up-to-date with technological developments is a necessity.

4. **Tendering:** the system of tendering of the EU lacks of publicity and for what concern the digital part is still to limited. 7.5 billion in 6 years are not enough, and both the Chips Act, Next Gen EU, and the NZIA, are not comparable with the effort that the United States and China are putting into the transition. While the regulatory approach of the EU has had until now incredible results at the international level, a major financial engagement by Member states seems necessary.
5. **Innovation hubs:** European competition policies against mergers have created a system that defends SMEs but that on the other hand obstacles the creation of MNCs with high innovation potential. The solution is either to support this, or trying to create hubs that are close geographically, to improve closed loops supply chains.

Case study II: The ETS 2 Directive

Following the ratification of the *Kyoto Protocol* (1997), the EU set its binding emission reduction targets. In practice, this translated into the implementation of the EU's first Emission Trading System (ETS) in 2005 which introduced a market-based emission reduction system that made polluters pay for their greenhouse gas emissions (GHG). Through its “cap and trade” system and after some initial adjustment through subsequent reforms, the ETS has highly contributed to the reduction in emissions of the sectors covered by it. Since 2005, the EU ETS has helped bring down emissions from power and industry plants by 37% (European Commission A). It has become a distinctive feature of the EU's commitment to tackle climate change and was until recently the largest and most efficient international emission trading system.

Following the announcement of the European Green Deal (EGD) in 2019 and the “*Fit for 55*” package, the EU reassessed its environmental strategy and set a binding European-wide target of reducing its GHG emissions by 55% in 2030 and achieve climate neutrality by 2050. One of the major reforms proposed has been the *2023 renewal of the ETS Directive*. This renewal expands the existing ETS framework by introducing a new emissions trading system under the new *Emission Trading System* (“ETS 2”). ETS 2 will cover and address the emissions from fuel combustion in buildings, road transport and additional sectors, mainly small industry not covered by the existing EU ETS (European Commission B). It represents a significant step in expanding the EU's climate action framework and driving down emissions across a wider range of sectors.

However, until 2027, the EU ETS2 will not become fully operational, providing a window to assess its implementation before it comes into full effect. A brief analysis of the strengths and weaknesses identified will be presented, followed by a series of policy recommendations. The research is complemented with previous findings by academic literature and think tanks.

The Strengths of ETS 2 :

1. The ETS 2 broadens the scope of regulated industries and reduces the burden on consumers through an upstream emission coverage system

By including further industries within the EU's emission trading system, the ETS 2 increases the chances of the EU to meet the net-zero emission target (Willner et al., 2022). The current ETS 1 framework covers 10,000 installations which represents around 40% of the GHG emissions produced within the EU (eg: 1.38 billion tons regulated in 2020) (Gulbrandsen, 2022). However, to reduce net emissions by at least 55% by 2030 compared to 1990 there is a need to regulate additional sectors (European Commission A). The ETS 2 fills this gap by including the emissions relating to the building, road transports and additional sectors within its scope. Through further carbon pricing the EU will be able to shape the carbon market to encourage investments into sustainable infrastructure and low-emission mobility (World Bank, 2021). This will have positive effect on both the short-term and long-term as it will not only encourage investments into low-carbon technologies but also drive technological innovation (EEA, 2023).

However, extending the scope of the ETS increases the monitoring and reporting obligations for actors (Ekins et al., 2024). To avoid imposing an unnecessary additional administrative burden on consumers, ETS 2 puts in place an upstream emission coverage system. Namely, the burden of monitoring and reporting their emissions will fall on fuel suppliers. They will be responsible for surrendering the relevant allowances to cover their emissions and purchase the needed allowances through the ETS 2 auctioning system. Furthermore, to facilitate reporting, the ETS 2 will align with the fuel regimes under the *Energy Taxation Directive 2003/96/EC* and *Directive 2020/262/EU* (European Commission C). This allows for polluters to be held accountable for their emissions at the source and reduce the burden on consumers.

2. The ETS 2 reinforces Effort Sharing between member states through the creation of a Social Climate Fund

ETS 2 incorporates an "Effort Sharing" mechanism, which sets binding annual greenhouse gas emission targets for EU MS for sectors not included in the original ETS. This ensures that all MS contribute to the overall emission reduction goals and includes a solidarity mechanism, through which some MS can compensate for others (Peeters, 2020). The effort-sharing mechanism ensures that all MS contribute to emission reduction goals, to promote fairness and collective responsibility (Peeters, 2020). This approach can enhance cooperation and commitment to meet the overarching EU 2050 targets.

This Effort Sharing mechanism is supplemented by the creation of a Social Climate Fund (SCF). The Social Climate Fund pools together part of the revenues made from the auctioning of ETS 2 allowances and the 50 million allowances of the existing ETS 1 (Defard et al., 2022). This funding will be used to support the most vulnerable groups and invest in renovation of buildings, clean heating and low-emission mobility solutions (Defard et al., 2022). Since 2013 auctions have raised **more than €150 billion**. Member States spend around 75% of these revenues on climate-related purposes (European Commission D, 2023). Now, as part of the revision, it was agreed that MS must spend all revenues on climate-related projects. Together with the Social Climate Fund, part of the ETS allowances is auctioned specifically to finance the Innovation Fund and the Modernization Funds (European Commission D, 2023).

This fund transposes the 'polluter-pays principle' in practice. It ensures that polluters pay for the negative externalities they cause, whilst the revenues are invested into funding programs for vulnerable households and microenterprises. Combined with the mandatory 25% contribution of member states through their Social Climate Plans, the Commission estimates that the fund will pool together 86.7 billion euros over 2026-2032 (European Commission E). It will make funding available to tackle energy and transport poverty to ensure that no-one is left behind in the green transition.

3. The ETS 2 introduces clearer Monitoring, Reporting and Verification Framework

ETS 2 outlines a clearer monitoring, reporting and verification framework (MRV) for emissions to maintain the credibility and trust of participants in the Emission trading system. ETS 2's MRV framework has a solid basis stemming from articles 14, article

15, Annex IV and Annex V of the *ETS 1 Directive*.¹ This is supplemented by the *Monitoring and Reporting Regulation* and the *Accreditation and Verification Regulation*.² Together they provide a strong MRV framework to ensure that the regulated entities purchase and surrender the required allowances to compensate for their emissions. Trust in the ETS is contingent on a consistent, transparent and enforced MRV framework. Since the ETS is a market-based system, carbon market participants and competent authorities need to be guaranteed that for each ton of CO₂ emitted, an allowance is surrendered. This ensures fair competition between market participants as well as that the emission “cap” is not exceeded to protect environmental targets.

4. The Markets Stability Reserve supports the ETS 2 to limit price volatility of carbon prices

The Market Stability Reserve serves as a supporting instrument to ETS 2 to limit price volatility which has been one of the main concerns of participants in the EU-ETS. As has been shown under ETS 1, carbon markets are susceptible to price volatility which can undermine the predictability of the prices of carbon allowances (Borgehsi et al., 2023). ETS 1 introduced a Market Stability Reserve (MSR) to address surpluses of allowances and adjust the amount of available auctioned allowances to prevent price volatility. Price volatility would be limited by controlling whether allowances are withdrawn or released from the Market Stability Reserve. ETS 2 will also operate under the Market Stability Reserve and serves as a potential solution to puncture the waterbed effect that poses a risk to the efficiency of the ETS-Directive (Perino, 2018). Namely, the Fit for 55 targets serve as an indicator to market participants that allowance scarcity will increase over the next ETS phases. Thus, prices and the total amount of allowances in circulation (TNAC) should increase. The MSR will further increase scarcity by cancelling additional allowances to meet the ‘cap’ and in the long-term emissions will decrease (Willner et al., 2022). To avoid unnecessarily disrupting the market, ETS 2 has put in place a transition period during which additional allowances will be released from the Market Stability Reserve if the price of allowances exceeds the 45 euros price increase threshold (Willner et al., 2022). Thus, the Market Stability Reserve serves as an instrument to limit potential price volatility that can occur as well as limit the vulnerability of the ETS to exogenous shocks.

The Weaknesses of ETS 2:

1. Assessing uncertain economic and social impact

Carbon pricing can disproportionately affect low-income households and small businesses, potentially leading to increased costs for heating, transportation, and other

¹ Article 30(f) of the ETS 1 Directive has made the above-mentioned articles and annexes also applicable to the ETS 2.

² Referring to Commission Implementing Regulation (EU) 2018/2067 of 19 December 2018 on the verification of data and on the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council.

essential services (Gore et al., 2022). An effective use of the generated revenue to support the most vulnerable household is crucial.

The creation of the ETS 2 can specifically affect low-income households heavily reliant on fossil fuels for heating and transportation. An example is that vulnerable households frequently depend on older, less efficient heating systems that are significantly more costly to upgrade (Bajomi, 2023). Despite the establishment of the previously “just transition instruments”, such as the above-mentioned Social Climate Fund, three main challenges remain. Firstly, the Social Climate Fund has a limited budget, and it is still unclear how these revenues will reach the most vulnerable households. According to Held et al., (2022), the Recovery and Resilience Facility regulation (RRF) is a recent example of how funds are not always used for intended purposes. When dealing with redistribution measures, it is important to monitor the exact measures that will be proposed by the MS and what effects they will have eventually.

Secondly, the “price cap mechanism” included in the legislation can be considered as an insufficient safeguard to ensure a socially fair energy transition (Held et al., 2022). There is the common and recurrent critique that price caps provide only temporary relief without addressing the underlying issues of infrastructure, consumption and mobility patterns.

Thirdly, part of the revenues generated from ETS2 will cover the Next Generation EU (NGEU) as the recovery funds need to be repaid with EU own resources. This obligation also reduces the funds available for social purposes. (Held et al., 2022). The Social Climate Fund’s budget is already limited and the diversion of ETS revenues towards repaying NGEU limits the flexibility to use these funds for domestic social programs.

2. Complex implementation and administration

Whilst the ETS 2 provides a clearer framework concerning MRV there is still significant red tape that regulated entities and competent authorities have to comply with. For example, administrative complexity is created through the differences in administrative frameworks for monitoring plans between Member States. Whilst the Commission has set a list of minimum requirements for the Monitoring Plans that regulated entities have to submit, the customization of these templates varies across Member States. All must abide by the Commission’s minimum requirements, yet some Member States have put in place an electronic reporting system whilst others follow the template provided by the Commission. This creates an administrative burden as regulated entities must reach out to the competent authority in their member states as well as check for additional specific national criteria prior to writing their monitoring plans. This is a challenge for businesses as it requires significant resources and undergoing a lengthy bureaucratic process to comply with all the requirements.

3. Challenges in Methodologies and challenges in supply chain

According to the Monitoring and Reporting Regulation (MRR) – General guidance for ETS2 regulated entities published by the European Commission (2024):³ *“Regulated entities have to determine the emissions associated with the combustion of fuels released for consumption using the calculation-based approach.”* The ETS2 system for monitoring and reporting provides for a building block approach for monitoring methodologies. Each parameter needed for the calculation of emissions can be determined by applying different “data quality levels”. These “data quality levels” are called “tiers”. Due to this complex methodologies, different challenges arise. Firstly, when different types of fuel are used or when the supply chain is divided, this can become an obstacle for its correct implementation.

Secondly, when ETS 2 covers only specific sectors, it can lead to imbalances where some industries face higher costs while others do not. For instance, the transport sector is included, this will imply that transportation costs will rise, affecting the entire supply chain's efficiency. Increased transportation costs due to ETS can disrupt supply chains, as goods that need to be transported over long distances become more expensive, affecting the overall cost structure of supply chains and increasing the final price.

Lastly, in its own Impact assessment⁴, the Commission recognises that by setting an upstream system, complexities related to the tracking of fuel over the supply chain and boundaries issues can arise, together with the risk of double burden and loopholes (Impact assessment- European Commission, 2021, pag. 132).

Policy recommendations: Learning from the past

1. Reinforcement of the Social Climate Fund and EU own resources

After its implementation, it is crucial to assess the actual impact on households. Despite the price cap, the MRS, and the Social Climate Fund, special attention should be given to vulnerable households and regions, with tailored measures. Lessons from past mistakes with ETS 1 should guide policy makers to avoid repetition. Continuous improvement and review of this new system are necessary to prevent backlash. Another suggestion will be empowering Member States, in particular local communities, to determine the best use of Social Climate Fund revenues (Gore et al., 2022).

The EU itself needs to ensure strong monitoring capacities by setting a solid legal framework that is binding for MS to effectively tackle the social risks of additional

³ Referral to Guidance Document The Monitoring and Reporting Regulation – General guidance for ETS2 regulated entities (26 March 2024). https://climate.ec.europa.eu/document/download/b5ccad58-6909-4a32-8a72-c73ab8d2a165_en?filename=policy_ets_ets2_gd_regulated_entities_en.pdf

⁴ Referral to IMPACT ASSESSMENT REPORT “Accompanying the document DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757” (July, 2021), p. 132.

CO2 prices. In connection with this, the creation of appropriate governance structures should be encouraged and supported. Thus, targeted and effective relief for low-income and particularly affected households needs to be a priority for the new EU ETS 2's acceptance and effective implementation. (Held et al., 2022). Examples are energy subsidies, social protection schemes, and programs aimed at improving energy efficiency in low-income households. Additionally, the establishment of robust monitoring and evaluation mechanisms to track the effectiveness of these targeted measures is essential. This should involve the collection and analysis of disaggregated data to ensure that support reaches those who need it most .

Lastly, the Social Climate Fund has potential to reduce distributional impacts, but a broader approach is necessary to address underlying causes of carbon-intensive consumption and to contribute to a just transition that includes the most vulnerable sectors of society. An effective policy response to reduce carbon footprints in a fair way should go beyond income support to include complementary measures to provide vulnerable households with viable alternatives to fossil-fuel intensive energy (Strambo et al., 2022). More concrete proposals encompass national investment and compensation schemes that prioritise adequate support for poorer households and guarantee transparency and participation of affected groups and civil society (CAN Europe et al., 2022).

2. Transparent and clear procedures for the well-functioning of the Single Market

Since the ETS 2 functions through a European wide cap system there is a need for transparent and clearer MVRs that can be applied in a harmonized way across Member States. This avoids fragmentation of the implementation of the ETS between Member States and limits unfair competition between market-actors. The current framework leaves room for differentiated implementation of the ETS monitoring in Member States, which creates a risk of “cherry picking” by regulated entities (European Commission C). For example, regulated entities could decide to submit their Monitoring Plans in countries with a more lenient or bureaucratic system in place. This would create barriers to the functioning of the single market by creating an unequal competition framework. To avoid this there is a need for the MRV processes to be made as clear, transparent and simple as possible to avoid high administrative costs which could encourage entities to circumvent their national systems.

3. Raising awareness and a coherent process

For the success of the ET2 and its correct implementation throughout the whole Union, raising awareness of the procedures in the different national administrations is key. Especially regarding the methodologies and the challenge that it constitutes across the value chain. Overall, it is crucial that transition assistance is provided for affected industries, regions and countries.

With regards to raising awareness and building capacity in national administration, the development and implementation of targeted training programs for officials in national administrations to enhance their understanding of ETS 2 procedures, methodologies, and objectives. More specific proposals are workshops, seminars, and online courses. This could be accompanied by a robust communication strategy to disseminate information about ETS 2, including guidelines, best practices, and case

studies from other regions. An example could be a centralized online portal to provide answers to questions.

In regards to the standardization of methodologies across the value chain, harmonised frameworks to ensure consistency and comparability of data is crucial. The latter should be accompanied by technical support and resources to national administrations and industries to facilitate the adoption of these standardized methodologies. This could include the provision of software tools, technical manuals and access to expert advisory services.

Conclusion

The new “ETS 2” is an important and necessary policy move for achieving climate neutrality by 2050. Among its strengths, the system provides a strong basis for reduction of emissions in high polluting sectors, incentivizing innovations and less carbon-intensives alternatives in the covered industries. Additionally, the ETS 2 has a phased implemented approach and is aligned with EFS regulation. Significant challenges remain, particularly regarding its potential economic and social impacts, administrative complexity, market stability and ensuring equitable and effective implementation across member states. The policy recommendations have attempted to demonstrate that, through careful policy design and robust support mechanisms, a successful implementation of ETS 2 in achieving the EU’s ambitious climate goals is possible.

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PANEL 4 - Reinforcing Prosperity - “Forging Ahead: Strengthening Economic Governance And Fiscal Policy In The European Union

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How to Modify the Budgetary Rules Imposed on Member States through the Stability and Growth Pact (SGP)?

Introduction

The Stability and Growth Pact was established in 1997, at the same time as the launch of the single currency, in order to ensure sound public finances. Its legal framework concerns the articles 121 and 126 of the Treaty on the Functioning of the European Union. In order to ensure economic stability and avoid overspending of the Member States, the SGP has two building blocks: the corrective arm and the preventive arm.

The corrective arm sets out the framework for countries to take corrective action in the case of an excessive deficit. It is made operational by the Excessive Deficit Procedure (EDP), a step-by-step procedure for correcting excessive deficits that occur when one or both of the rules (60% debt or 3% deficit) are breached. Nevertheless, if the Council decides, on the basis of a Commission recommendation, that a deficit is excessive, the Council issues a recommendation to the Member State concerned to correct the excessive deficit and gives a time frame for doing so. Non-compliance with the recommendations could eventually trigger the possibility of sanctions for the Member States in the euro area.

The preventive arm stipulates that each Member State must have a differentiated Medium-Term Objective (MTO) for its budgetary position. This MTO is a budget balance in structural terms which seeks to develop a nominal budget balance and the implementation of adjustments if needed. This budgetary position is subject to a series of criteria. These criteria request Member States to advocate for responsible fiscal management by aiming for balanced budgets, maintaining deficit limits, ensuring long-term financial sustainability, allowing flexibility for necessary expenditures, and reviewing and revising fiscal policies each 3 years. Nowadays, Member States outline their MTO plans in Stability and Convergence Programs (SCP) which are submitted and assessed annually in the context of the European Semester.

Since 2011, the monitoring of Member States' compliance with the SGP has been conducted through an annual cycle known as the European Semester. The European Commission plays a central role in the Semester, issuing reports on the fiscal and macroeconomic situation of each Member State and proposing Country Specific Recommendations (CSRs). These CSRs are subsequently adopted by the Council and outline key targets and reforms that Member

States should achieve or implement to enhance their compliance with the SGP and, more broadly, to attain a more sustainable growth model.

Initially focused on financial discipline, the European Semester has gradually incorporated broader objectives, particularly those related to social policy and the green economy. The integration of the European Pillar of Social Rights (EPSR) into the Semester represents a significant advancement in social policy. Additionally, the governance of the Recovery and Resilience Facility is integrated with the Semester, with the achievement of milestones and targets, and the subsequent disbursement of funds, being monitored within the Semester framework.

Limits of current European policies

SGP

The Stability and Growth Pact (SGP), introduced in 1997 to ensure compliance with the Maastricht Treaty debt and deficit criteria, is currently undergoing a period of reassessment. Following its temporary suspension during the Covid-19 pandemic, new debt and deficit reduction rules were agreed upon in winter 2023, albeit the general target values of 60% debt and 3% deficit have persisted. In the following we will discuss some of the shortcomings of the current framework and suggest reforms.

The SGP includes “stronger surveillance, binding recommendations for fiscal adjustment and potentially sanctions” (De Angelis & Mollet, 2021, p. 1-2) although they were never used. The corrective arm was strengthened during the Euro crisis with the so-called fiscal compact and a legislative “sixpack.” Since then, it has been the rule that countries exceeding the 60% debt mark must reduce their “excess debt” by 5% annually. In 2023, this benchmark was lowered significantly to 1% per annum (debt >90% of GDP) or 0.5% (debt >60%) per annum, reflecting an overall assessment that more time and greater flexibility for debt reduction were needed.

In general, we identify the following shortcomings of the SGP:

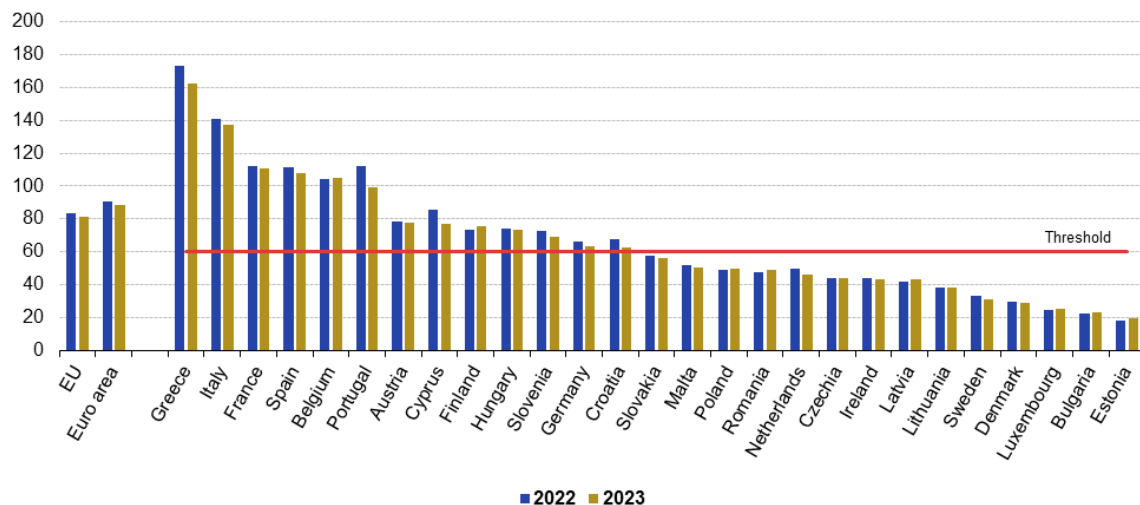
- ***Excessive constraints on fiscal policy – need for more leeway***
- While improvements with deficit and expenditure criteria were noticeable, debt levels have not been reduced and in some cases increased significantly.
- The deficit and debt values were determined politically and do not follow a clear and transparent economic reasoning. The “one-size-fits-all approach” (De Angelis & Mollet, 2021, p. 2) neglects the heterogeneity of fiscal conditions and needs within Europe.
- The rules have led to “procyclical expenditure” (rising in boom phases, contracting in recession).
- With monetary policy centralised and fiscal policy leeway constrained, national governments lack an instrument to respond to asymmetrical crises.
- The need for investments has grown. The twin transition requires a strong fiscal impulse.

○ *A toothless tiger? Lack of enforcement*

As demonstrated by the high debt and deficit levels in some European countries, the SGP has not been effective in creating incentives for fiscal stability or consolidation. This does not come as a surprise given that no country has ever been fined in the framework of the EDP, although 38 EDPs were launched. The lack of automatic sanctions is partially understandable. As highlighted before, country-specific conditions must be taken into account when assessing fiscal policy. However, the political unwillingness to enforce the rules, demonstrated by Jean Claude Juncker's infamous "because it's France" remark, weakens their deterring effect. It should be noted that greater fiscal leeway of Member States and stronger enforcement of the rules, two central recommendations of this paper, are not contradictory. With more realistic and feasible targets, Member States will have higher incentives for compliance. Hence, within an overall more flexible framework, Member States should be sanctioned for non-compliance. This might require a change in the SGP's governance (see below).

General government debt, 2022 and 2023 ⁽¹⁾

(General government gross debt, % of GDP)



(1) Data extracted on 22.04.2024

Source: Eurostat (gov_10dd_edpt1)

eurostat

European Semester

Despite the inclusion of social and environmental dimensions, the Semester remains heavily centred on fiscal discipline. This focus limits Member States' ability to implement counter-cyclical policies during recessions, even when such policies are *de facto* recommended by the more social CSRs. In addition, the reference of the EPSR in the Semester is still mostly rhetorical and is not fully reflected in the content of the CSRs.

Another critical limitation concerns the democratic legitimacy of the Semester. The process is primarily managed by the Commission and national governments, relegating the European Parliament to a consultative role and failing to significantly empower national parliaments beyond their usual oversight of national governments.

Recommendations

SGP

- **Propose adjustments to the deficit and debt thresholds to provide more flexibility for Member States, especially in times of economic downturn**
- **Soften the investment clause and the general escape clauses**
- **Exclude certain types of public expenditure (ecological transition education, healthcare, long care) from the calculation of deficit and debt** Introduce the green golden rule which excludes public expenses in the field of sustainable transition from the calculation of expenditures/deficit (Piketty, Darvas and Wolff).
- **Strengthen the social policy parameters in the European Semester**

The European Pillar of Social Rights is already a good starting point (poverty reduction targets, increase employment, retrain workers). Focus on in-work poverty, youth unemployment, primary, secondary and tertiary education. Take account of the different growth models of Member States: the Commission should be more flexible on assessing the economic policies of MSs, consider what is better for the specific national economy and focus less on “convergence” per se.

- **Strengthen mechanisms to ensure compliance with the revised rules, including incentives for adherence and penalties for violations.**

Agree with MSs individual plans of “return to compliance” (on the basis of the NRRPs) – the recent reform is good in this regard. Remember that “prevention is better than cure”: focus more on the possibility of actual enforcement of CSRs/SGP rules, than on sanction mechanisms.

- **Introduce margins of tolerance for the MTOs and the SCPs of Member States.**

With these margins, Member States would have more possibilities of reaching their MTOs and at the same time, they would receive a lower degree of pressure on the extent their deficit and debt can fluctuate. .

- **Strengthen enforcement by creating a non-political fiscal oversight body**

To avoid bi- or multilateral compromises to circumvent rules and instead to ensure compliance, the imposition of sanctions should become the responsibility of a non-political institution detached from both the Commission's and Member States' influence. The European Fiscal Board could assume this responsibility, for instance.

– **Reduce the potential for abuse of the “golden rule”**

Some economists express the concern that a “golden rule” which exempts investments in the green transition from debt and deficit calculations, opens the door for abuse. National governments could label unproductive spending as “green” or “future-oriented” to circumvent fiscal rules. To avoid such a scenario, an introduction of the golden rule must be accompanied by safeguards. The following measures could prevent abuse:

- Member States should have a duty to explain how investments contribute to sustainability matters or other desirable targets (strategic autonomy). To avoid excess bureaucracy, this obligation should only be applied for investments of a substantial nature (to be defined in quantitative terms).
- Explanations could be assessed by the European Fiscal Board, which can either follow the Member States' opinion, reject it or demand additional specifications. In case of repeated abuse, sanctions could be applied.
- **Sticks and carrots – create incentives for compliance**

Rather than just acting punitively (“sticks”), incentives (“carrots”) for compliance with the budgetary rules should be created. For instance, trajectories of sustainable or adequately falling (by 0.5-1% p.a., see above) debt levels could give Member States access to certain earmarked funds.

European Semester

The European Semester's blend of hard and soft law elements provides an appropriate basis to streamline the implementation of EU growth strategies while respecting national preferences. To enhance its effectiveness, the following recommendations are proposed:

- The implementation of the EPSR through the Semester should be more integrated besides the rhetoric, with clearer objectives, particularly regarding in-work poverty and youth unemployment. A special focus should be placed on developing an inclusive economy, aligning objectives with the United Nations Convention on the Rights of Persons with Disabilities.
- The environmental aspects of the Semester should be reinforced by substantially empowering the Directorate-General for Environment (DG ENVI) and the Directorate-General for Climate Action (DG CLIMA).
- To ensure balanced participation, the Semester should no longer be dominated by the Directorate-General for Economic and Financial Affairs (DG ECFIN). Instead, it should be supervised by the General Secretariat, with all Directorates-General participating on a more or less equal footing.
- An in-depth reflection on the different growth models adopted by Member States should be undertaken. Instead of the idea of convergence towards a single European

growth model, it is preferable to allow for a variety of national models within the overarching European framework.

- The European Parliament should be granted decision-making power on the EU's growth strategy and veto power on the CSRs. Additionally, national parliaments and social actors should be more involved in the dialogue with the Commission and national governments to prevent excessive domestic centralisation, which can be counterproductive.
- Include in the European semester an obligation for MS to give progress regarding the implementation of the UN CRPD since it has been ratified by EU and all MS (EDF, EASPD, ENIL)

How to Increase EU's Own Resources ?

Introduction

EU's own resources represent the revenues of the European Union. More precisely, the creation of a European Economic Community in 1957 led to collection of a common revenue for the area, such as customs. In 1970, through the treaty of Luxembourg, Member states decided that this common revenue will be mobilised to finance the Community policies and that those policies should be financed by the EU own resources, rather than Member states. After a transitory period of 5 years, EU own resources were institutionalised and then complemented through European Integration. The EU own resources includes :

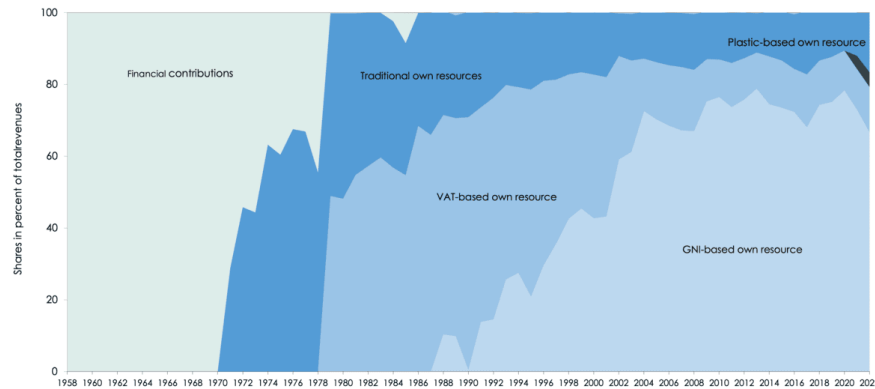
- **Traditional Own Resources (TOR)** which includes customs duties based on the common customs tariff, agriculture levies as well as a specific charge on the production of sugar within the EU.
- **VAT-Based Resource:** a contribution done by a Member state calculated on a uniform percentage rate applied to the harmonised Value Added Tax (VAT) base of the member state.
- **GNI-Based Resources :** a contribution from member states based on their Gross National Income. It is the largest source of revenue and ensures the EU budget is balanced. Each member state's contribution is calculated as a uniform percentage of its GNI.
- **Plastic-Based Contribution:** a member state contribution based on the amount of non-recycled plastic packaging waste produced in the said member state.

Limits of current European policies

Lack of genuine own resources

The EU's own resources are nowadays mostly composed and dominated by member-state contributions based on value added tax (VAT), member states gross national income (GNI) and non recycled plastic waste. As such the addition of the said resources represented 83.4% of the share of total income sourced from own resources. On the other hand, traditional own resources, directly linked to the activity of the European Union hence being “*genuine own*

resources” represented in 2022 16.6% of this share, following a decreasing trend in the recent years as shown by Figure 1. This shrinking share of genuine own resources creates a lack of autonomy of the EU budget and purpose of own resources. Indeed, those increasing own resources do not serve, with the exception of the plastic waste one, a dedicated policy goal of the European Union. However, own resources could be used as a leverage to achieve policy goals, such as tax harmonisation or even reducing inequalities. Furthermore, an excessive share of member states contributions in their own resources system gives the ability to member states to highly influence the budget of the European Union.



Indeed, as MFF maximal spending ceiling cannot go higher than the own resources ceiling as an application of the equilibrium principle (TFEU article 314), and as the own resources ceiling is decided through unanimity in the Council (TFEU Art 311), member states can modify their contributions to pressure or limit the size of the EU budget as a whole. This gives the power to some member states to impose discounts on their contributions.

Lack of volume

The recent COVID Crisis and the Next Gen EU mechanism totaling 750 billion € of debt resulting from EU answers made it clear that the EU needs further resources. For now, the ceiling of the GNI resource has been raised in order to guarantee a sufficient headcount in the EU budget. But it was made clear that new own resources were needed to ensure the ability of the EU to reimburse the borrowing cost of Next Gen EU.

A decision making process favouring unfair practices

In the case of the VAT based resource, some member states are benefiting from discounts, as their contribution was judged too high in comparison to their relative prosperity. This situation, inherited from the Fontainebleau agreement, led to an inequality between Member states as some do not benefit from the same advantages. Through the years, several attempts were made to effectively reform this inequality (Lamassoure Report, Monti report, negotiations of the 2021-2027 MFF, ...) but ultimately failed in the face of unanimity principle. Indeed, any modification of the own resources decision needs the unanimity of the Member states as well as its ratification by national parliaments. This led not only to a deadlock in negotiations to end the said discounts but also to the pursuit of “juste retour” by individual Member states, trying to maximise the contribution/benefits relations they have with the EU budget, and ultimately, lead to limitate Member states contributions.

Lack of simplicity and direct link to the citizen

The VAT-based own resource lacks simplicity and a direct link to citizens because it involves complex calculations to harmonise the VAT base across diverse national systems. This process requires adjustments to account for differences in how VAT is applied in each member state, making the method less transparent and harder for citizens to understand. In addition, the EU does not directly deduct a share of the VAT on each product traded within the European Union, but receives a contribution from the member states based on it. This indirect link severed the legitimacy that could have been produced from a direct contribution link between the EU budget and citizens. Lastly, Same applies for discounts calculation, as the estimate of the “relative prosperity” remains a complex calculation done by the European Commission, which is not understandable by the citizen.

Recommendations

No taxation without representation. Towards a fairer decision making process and the end of discounts.

While the consultation of national parliaments for any modification of their own resources decision constitutes a way to consult European citizens despite the necessary unanimity in the Council, this intergovernmentalist method doubles the power of individual member states to block any edit of the said decision and the deleting of discounts. Hence we recommend the following :

- **Reform the own resources decision making system by deleting the necessary unanimity.**

A good enhancement could be to copy what is done for the adoption of the MFF (unanimity in Council + consent of Parliament), including the ceiling.

- **Adopt in the next calendar a transitory period to end the system of rebates.**

This can be done with the implementation of new own genuine resources and a decrease of the VAT based own resource to avoid having an increased contribution from the former rebate benefiting member states and having a negative impact on the EU budget.

- **Simplify the VAT based own resource**

To accompany this change and the delete of discounts, we propose the following recommendations for the VAT based own resource :

- Option 1 : Completely replace the VAT resource by other genuine own resources directly linked to the activity of the EU (cf Lamassoure) as listed below to increase the EU budget autonomy and avoid a higher contribution of Member states due to the end of discounts.
- Option 2 : Simplify and reduce the VAT based own resource so the EU directly collects a percentage of the VAT on traded goods within Member states, hence creating a direct link between the EU budget and the citizens

- **Adopt new own resources in face of new challenges**

The Commission proposed in December 2021 a new basket of its own resources. It includes, after considering the Council position, three additional genuine own resources such as :

- ETS-based own resource : composed of 30 % of auctioning revenues from the ETS
- a CBAM-based own resource : based on 75 % of revenues from the CBAM,
- an own resource stemming from levying 0.5 per cent on the gross operating profit of corporations

While this proposal is a good first basis and will enhance the autonomy of the EU budget, further own genuine resources that has already been suggested could be added :

- an ETIAS based own resource : based on the charges for visa waivers included in the European Travel Information and Authorisation System
 - a financial transaction tax based own resource : this EU wide FTT would involve the adoption of a minimum 0.1 % tax rate for transactions in all types of financial instruments
 - A corporate and digital tax based own resource, this tax should be incorporated within the OECD pillar I agreement on international tax architecture but should not be dropped if no implementation agreement is found regarding the latter.
 - An additional EU wealth tax based own resource : as suggested by the economists Chancel, Luaz, Piketty and Zucman in order to both reduce inequalities within the European Union and limit environmentally harmful behaviors.
- **Focusing on win-win : increase implementation and resources by increasing EPPO budget**

It is not often that one can increase resources without augmenting the in-flow. This is what EPPO's prosecution does in protecting the EU's financial interests and retrieving defrauded VAT and Funds. In order to increase such resources it would suffice to preventively invest, with the aid of the EIB or ECB, 1 years' worth of its budgetary allocation, that in turn would become the 'capital' of the Office, which could then partially operate independently.

How to Modify ECB role and Monetary Policy ?

Introduction

Structure

The European Central Bank (ECB) is the institution that administers monetary policy in the euro area. It is part of the European System of Central Banks, which includes the central banks of all EU countries, and the Eurosystem, which consists of the institutions of the 19 countries that have adopted the euro. The ECB's main task is to control the money supply and inflation by setting the interest rates at which it lends to commercial banks in the eurozone. It also manages the eurozone's foreign exchange reserves, selling or buying to keep exchange rates in balance. Finally, the ECB authorizes the issuance of euro banknotes by eurozone states.

The ECB has a capital of around EUR 11 billion, divided among the central banks of the EU countries according to their population and gross domestic product. The institute's

decision-making bodies are three: the executive board, comprising the president, the vice-president and four other members appointed by the eurozone countries, which manages day-to-day business; the governing council, comprising the executive board and the governors of the central banks of the eurozone countries, which sets monetary policy and sets interest rates; and the general council, comprising the president and vice-president of the ECB and the governors of the central banks of all the EU countries, which has advisory and coordinating functions.

Mandate

According to Article 2 of its statute, the ECB has the objective of ensuring price stability within the eurozone. This means keeping inflation below 2%. In contrast, the statute does not refer to the objective of ensuring full employment, which is explicitly included in the mandate of other central banks, such as the US Federal reserve (Fed). This justified the refusal to implement stimulus policies adopted by other countries in the aftermath of the 2008 financial crisis, which many economists believe contributed to Europe's economic stagnation. In 2015, overcoming resistance from Germany, Draghi initiated a quantitative easing programme similar to that of the Fed. The plan, under which EUR 2.6 trillion of public and private bonds were purchased, led to a recovery of economic growth in Europe and ended at the end of 2018.

Limits of current European policies

Fight against climate change

The ECB is one of the key player in the ecological transition.

According to Article 127 of the TFEU, the European System of Central Banks (ESCB) must support the general economic policies in the Union to contribute to the achievement of the Union's objectives, provided that this does not prejudice the objective of price stability.

Given the EU's commitment to achieving carbon neutrality by 2050, the ECB must adapt its role to address the ecological emergency.

This has been confirmed by European Parliament's resolution of 12 February 2020, which emphasizes that “the ECB is bound by the Paris Agreement on climate change and this must be reflected in its policies.”

However, ECB climate action is not sufficient.

Indeed, in its resolution, the Parliament also expressed concern that 62.1% of the ECB's corporate bond purchases involve sectors responsible for 58.5% of the euro area's greenhouse gas emissions.

Quantitative easing mechanism

Since 2011, the European Central Bank (ECB) has created over €4,000 billion through the mechanism of Quantitative Easing (QE). This involved the massive purchase of public debt and other financial assets to inject money into the economy, which was suffering from the aftermath of the financial crisis, with the goal of stimulating growth.

However, this monetary creation has not achieved the intended effect because banks did not subsequently inject this money into the real economy. Instead, they increased their deposits at the ECB from €300 billion at the beginning of 2011 to nearly €2,000 billion in 2017. This was partly to preserve their liquidity ratio, which requires banks to maintain an adequate level of high-quality liquid assets that can be converted into cash to cover their needs over a 30-day period.

Beyond the preservation of their Liquidity Coverage Ratio (LCR), the failure to inject this money into the real economy also stems from banks shifting away from corporate lending activities in favor of speculation. By prioritizing speculative activities over lending to businesses, banks have further limited the effectiveness of the ECB's QE policy in stimulating economic growth.

This situation represents a significant flaw in the ECB's objective of economic recovery. The excess reserves held by banks at the ECB indicate that the money created through QE did not reach businesses and consumers as intended, thereby limiting the policy's effectiveness in driving economic growth.

Monetary policy

The ECB's policy of raising interest rates since 2022 demonstrates its limitations in several key ways. The increase in interest rates, particularly the refinancing rate, has led to difficulties in accessing liquidity for consumers, reducing their purchasing power. It has also made investments more challenging for businesses, potentially stifling economic growth.

While higher interest rates are intended to curb inflation by encouraging companies to lower their prices, inflation naturally leads to reduced consumer spending, prompting businesses to decrease prices independently (inflation → recession → lower prices).

Additionally, the ECB aims to combat the price-wage spiral, yet the IMF has stated that there is no such spiral in the EU⁵. Higher interest rates also result in increased unemployment, poverty, and public debt. Thus, this approach may exacerbate economic hardship rather than alleviating it.

Recommendations

Fighting climate change

The significant proportion of carbon-intensive investments in the ECB's portfolio highlights a critical need for the ECB to reorient its policies towards more sustainable and eco-friendly investments. Continuing to support businesses directly related to the fossil fuel industry contradicts the EU's commitment to achieving carbon neutrality by 2050.

⁵Alvarez, J., Bluedorn, J., Hansen, N.-J., Huang, Y., Pugacheva, E., & Sollaci, A. (2022). Wage-Price Spirals: What is the Historical Evidence? International Monetary Fund. Available at: <https://www.imf.org/en/Publications/WP/Issues/2022/11/01/Wage-Price-Spirals-What-is-the-Historical-Evidence-525071>

Thus, the ECB should cease purchasing corporate bonds from companies involved in the fossil fuel industry. By redirecting its investment strategies towards sustainable and renewable energy sectors, the ECB can better align its policies with the goals of the Paris Agreement and promote a greener, more resilient economy.

Therefore, enhancing the ECB's policies for the green transition is not only a matter of compliance with the Paris Agreement and the EU's commitments but also a strategic move to ensure long-term economic and environmental stability.

Social policy

One potential modification to the ECB's policy could be implementing a "quantitative easing for people" approach through two means: distributing vouchers directly to citizens or conditioning the ECB's liquidity injections to banks on investments in the real economy.

Distributing vouchers would provide immediate financial relief to individuals, boosting consumption and stimulating economic activity. Alternatively, requiring banks to channel the liquidity into productive investments would ensure that the funds support business growth and job creation, thus fostering a more direct and tangible impact on the economy.

Monetary policy

The ECB should lower its interest rates to facilitate better access to liquidity for both businesses and citizens. Additionally, this would enable states to reduce their public debt. By making borrowing more affordable, economic activity could be stimulated, leading to growth and financial stability across the EU.

Governance

All nominations to the governing council should be approved by the Parliament with the same method as Commissioners. Its monetary strategy could go under a special legislative procedure with adoption by the Council and/or the Parliament.

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