

Mr Charles Michel
President of the European Council
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Letter sent to all members of the European Council:

President Michel, Chancellor Nehammer, Prime Minister De Croo, Prime Minister Denkov, Prime Minister Plenković, President Christodoulides, Prime Minister Fiala, Prime Minister Frederiksen, Taoiseach Varadkar, Prime Minister Kallas, Prime Minister Orpo, President Macron, Chancellor Scholz, Prime Minister Mitsotakis, Prime Minister Orbán, Prime Minister Meloni, Prime Minister Siliņa, President Nausėda, Prime Minister Frieden, Prime Minister Abela, Prime Minister Rutte, Prime Minister Tusk, Prime Minister Montenegro, President Iohannis, Prime Minister Fico, Prime Minister Golob, Prime Minister Sánchez, Prime Minister Kristersson, President Von der Leyen

SUBJECT I Support public investments for a stronger, more resilient and sustainable economy

Brussels, 04 April 2024

Dear President,

Dear Members of the European Council,

We are deeply concerned about the return of overly restrictive fiscal policy. The final compromise on the reform of the EU economic governance due to be voted on by the European Parliament and the Council is multiplying unsubstantiated and arbitrary numerical benchmarks, which will trigger a wave of cuts to public budgets across Europe. Several countries, such as Germany, France and Denmark, have already cut or are planning to cut green investment and social spending for 2024 and 2025.

As you will discuss future EU priorities at the European Council on 17-18 April, we urge you to reject unnecessary fiscal consolidation and instead support the creation of a post-2026 long-term green and social investment fund, as well as adopt progressive taxation such as on extreme wealth, excessive fossil fuel profit, financial transactions and frequent flying. Such an investment drive is necessary to deliver a sufficiently fast and fair transition.

Unnecessary fiscal consolidation will exacerbate economic, environmental and social woes, which will also jeopardise debt sustainability. The political agreement on fiscal rules stands in the way of the EU and Member States achieving a range of political objectives, from agreed climate and environmental targets, to achieving strategic autonomy and economic and social convergence in Europe.

The EU Recovery Fund was labelled a “success story” by the European Commission, praising its effectiveness in supporting upward convergence and the preservation of public investments for

greater shared prosperity. We must build on this success and guarantee that Europe has the public finances to deliver better public services, protect its people against environmental, geopolitical and economic risks and carry out the deep transformation towards an economy that fits within planetary boundaries.

Moreover, we are witnessing a surge in protests against the unequal distributional effects of climate action, where the burden falls disproportionately on ordinary people while the extremely rich are not contributing a fair share. A fair transition requires governments to support low-income households to gain access to energy-efficient homes, renewable energy, community energy or low-carbon mobility. Electric car-sharing schemes and public transport must be affordable and accessible to all, and energy grids need to be upgraded, which requires massive investment in collective infrastructure.

We also need a green and fair industrial strategy. The competitiveness of Europe's industry must be based on the best environmental, climate and social performance. Targeted public subsidies should support the industries of the future; the ones willing to embark on the transformation towards circularity, producing efficiently and with reuse and repair at their core. Particular efforts are needed towards micro, small and medium-sized enterprises (MSMEs) and social economy enterprises as they often face higher barriers to access capital markets. Public funds for industry should never be a 'carte blanche', but instead be tied to social and environmental conditions, including limits on dividends as long as companies are benefiting from subsidies, gender equality requirements and concrete climate transition plans and targets. Unconditional funds risk rent-seeking behaviour and encourage the wrong kind of production.

We are calling upon you to ensure the following policies are at the core of the next strategic agenda of the European Union:

- **Design economic governance fit for the challenges of the next decade:** this would consist of combining fiscal rules for national budgets flexible enough to frontload green and social investments with a stronger and permanent European fiscal capacity. The economic governance reform, which the European Parliament and the Council will vote on before the 2024 EU elections, is utterly inadequate against this yardstick and will prevent a number of Member States from reaching the EU climate goals.
- **Establish a long-term EU just transformation fund post-2026:** Create a dedicated and long-term EU public investment fund to drive the socially just transformation of our economy towards net-zero and circularity, provide companies and citizens confidence in the transition and strengthen economic and social cohesion by ensuring that governments can make long-term investments towards social and green objectives.
- **New progressive taxes:** Commit to adopt progressive taxes. Including a tax on extreme wealth, a frequent flyer levy, an excess profit tax on fossil fuel and a financial transaction tax to support the EU and governments to plug green and social investment gaps. Also commit to environmental tax reforms to implement the polluter pays principle, while guaranteeing that it does not negatively affect low-income groups in particular.
- **Public subsidies to companies should be targeted and conditional:** Investments should be targeted towards fostering the most sustainable modes of production, as well as include

clear social and environmental conditions such as job creation, respect for the right of collective bargaining and action, production with a low environmental footprint and limits on dividends. This should include targeted support to the social economy sector that puts social and environmental objectives at the centre of their economic activity and prioritises support to MSMEs, as large companies have access to capital markets.

- **A progressive social agenda:** Prioritise public investments towards collectively organised public services (e.g. public transport, health, care and housing) to improve wellbeing and help reduce carbon, energy and material use.

As representatives of civil society organisations, think tanks, trade unions, and academics from across the EU, we call on you to recognize the urgency of addressing these issues. The well-being of people and the future of our planet depends on bold and decisive action. We ask you to support our policy demands to safeguard a just transition for all people across Europe.

Yours sincerely,

Civil Society, trade unions and think tanks

Chiara Martinelli, Director, Climate Action Network (CAN) Europe
Benoît Lallemand, Secretary General, Finance Watch
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