BRIEFING

# Exceptional coronavirus support measures of benefit to EU regions


## SUMMARY

The coronavirus pandemic is affecting the EU's regions in various ways. Although the virus has spread all over Europe, certain western EU regions have recorded relatively higher numbers of Covid-19 cases and deaths. Most of the deaths from the virus have so far been particularly concentrated in certain Italian, Spanish and French regions. Healthcare systems in many EU regions are under tremendous pressure as they tackle the inflated needs caused by the coronavirus. What is more, the pandemic is also having a severe impact on the European economy. As many economic sectors have reduced their activities, the social and economic impact of the pandemic is likely to be felt in all EU regions. Although it is still too early to make concrete predictions, the economic impact of the coronavirus pandemic could well further impede the social, economic and territorial cohesion of the EU by increasing the existing divisions between EU regions.

The European Commission has put forward a number of proposals to alleviate the impact of the coronavirus pandemic on EU territories. The European Parliament has been supportive overall of the Commission's proposals. It triggered urgent procedures in order to approve them swiftly so that EU citizens could benefit quickly from their positive impact. Actions under various EU funds and policy instruments are now geared towards health-related purposes and the reigniting of the economy. In these critical times, cohesion policy could be no exception to the rule and is being drawn on increasingly to provide emergency relief. A number of amendments to the regulation governing the European structural and investment (ESI) funds have been approved by Parliament in order to allow flexible use of the funds in addressing the challenges posed by the crisis. A number of additional regulations and policy instruments meanwhile complement the ESI funds in the fight against the pandemic's negative consequences.

Local and regional authorities are at the forefront of the pandemic as they are often responsible for providing much of the emergency response. They can use the newly adopted EU measures to reinforce their coronavirus action and to support their economic sectors.


In this Briefing




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# Background

The EU's regions have been severely affected by the pandemic and their health systems overburdened by a dramatic increase in patient numbers. Certain regions have been worse affected than others: the virus first seemed to hit metropolitan areas hardest, but the virus has also been spreading in rural areas, which often have fewer health facilities to monitor and tackle the virus. As coronavirus-related deaths are higher among older people, regions with ageing populations such as remote and depopulated rural areas, islands and mountainous areas can also be particularly vulnerable.

The coronavirus pandemic is also having a major impact on regions' social and economic fabric. Most economic activities have been disrupted. Even when life returns to normal, it may be some time before economic activity returns to pre-pandemic levels. A paper by the Organisation for Economic Co-operation and Development (OECD) predicts a gross domestic product (GDP) loss of between 15 % and 35 % for various EU economies. The European Commission's Spring 2020 Economic Forecast projects that the euro-area economy will contract by a record 7.75 % in 2020 and grow by 6.25 % in 2021. The economy of the EU as a whole is forecast to contract by 7.5 % in 2020 and grow by around 6 % in 2021. The shock to the EU economy is symmetrical in that the pandemic has hit all Member States, but both the drop in output in 2020 (from -4.25 % in Poland to -9.75 % in Greece) and the strength of the rebound in 2021 are set to differ markedly. Each Member State's economic recovery will depend not only on how the pandemic evolved in that country, but also on the structure of their economies and their capacity to respond with stabilising policies.

Certain economic sectors may recover more quickly. However, certain seasonal activities have experienced significant difficulties. For instance, both big companies and SMEs have suffered major losses. Rural regions have suffered disruption in their agriculture sectors. The coronavirus pandemic has also had a negative impact on the fisheries sectors of various coastal areas. Tourist regions have also been badly affected, with cancellations drastically reducing the numbers of people travelling and using accommodation. Prospects for the future of tourism look bleak.

The European Commission has put forward a number of proposals in order to ease the pressure stemming from the impact of the coronavirus pandemic on EU Member States and to benefit all its territories. The European Parliament has been generally supportive of the Commission's proposals, triggering urgent procedures in order to approve them swiftly so that EU citizens could benefit from their positive impact. Parliament has been also demanding new policy measures in order to do more to tackle the negative impact of coronavirus.

# New measures to tackle the health, financial and social crisis

The European Commission's new measures in response to the coronavirus cover many policy areas (e.g. public health, the fight against disinformation, measures to support businesses and the economy, research, crisis management, etc.). Some of these measures will benefit EU regions directly by allowing them to use funds to cover health needs and to protect their economic sectors. A list of some of the major EU funds and measures that can help EU regions to overcome the challenges of the coronavirus are explained below.

## First package of measures

The first package of measures, including the Coronavirus Response Investment Initiative (CRII), was proposed by the European Commission on 13 March 2020 (approved by the European Parliament on 26 March and formally adopted by Council and Parliament on 31 March). A number of measures adopted in this package can be of direct help to regions in their fight against the coronavirus pandemic while also alleviating certain economic problems. As part of this first package, the Commission adopted an economic response to the outbreak, applied the full flexibility of the EU fiscal rules, revised its State aid rules and set up the €37 billion CRII to provide small businesses and the health care sector with liquidity. To achieve this, the Commission has proposed amending the current ESI fund rules in order to release investment liquidity. This amendment will help to redirect unspent EU funds to coronavirus-related responses. For instance, it was proposed to remove this year's obligation to refund unspent pre-financing for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF) and the European Maritime and Fisheries Fund (EMFF) before programme closure. With this measure, the Commission hopes to redirect €37 billion from available EU funds as soon as possible to the citizens, regions and countries hardest hit by the coronavirus pandemic. These resources may be directed towards healthcare systems, SMEs, labour markets and other vulnerable parts of EU Member States' economies.

These measures are designed to support healthcare systems, e.g. by financing medical equipment and medicines, testing and treatment facilities, disease prevention, e-health, the provision of personal protective equipment and medical devices, and by adapting the working environment in the health care sector and ensuring access to healthcare for vulnerable groups. They are also aimed at providing companies with liquidity in order to tackle the short-term financial shocks caused by the coronavirus crisis. Special attention can be paid to sectors that are particularly hard hit, and support is temporarily available through national short-time (i.e. shorter-hours) working schemes to help cushion the impact of the shock, in combination with up-skilling and reskilling measures.

Another element of the package is the extension of the EU Solidarity Fund (EUSF) to cover public health emergencies so that it can be mobilised if needed for the hardest hit Member States. The fund can support major and regional disasters. Through this extension, a total of €800 million is potentially available to cover all Member States.

The European Globalisation Adjustment Fund (EGF) could also be mobilised to support redundant workers and the self-employed. Up to €179 million is available in 2020.

## Second package of measures

On 2 April 2020, the Commission put forward a second package of measures (including the Coronavirus Response Investment Initiative plus – CRII+). A legislative proposal was included in the package to provide exceptional additional flexibility for use of the ESI funds. The Commission proposed a number of amendments to the regulation on the European Regional Development Fund and the Common Provisions Regulation, which sets out the rules governing the use of all ESI funds. As a temporary and exceptional measure, a proposal was made to allow for the temporary possibility of 100 % financing from the EU budget between 1 July 2020 and 30 June 2021 for programmes dealing with the impact of the pandemic, as well as additional transfer possibilities between the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF), and between the different categories of region. Also, possibilities for support for working capital by means of financial instruments should be extended to the European Agricultural Fund for Rural Development (EAFRD). There was also a proposal to exempt Member States from the need to comply with thematic concentration requirements (the obligation to comply with requirements to focus spending on specific priorities) in order to enable the redirection of resources to the areas worst hit by the current crisis. In addition, expenditure incurred in connection with completed or fully implemented operations fostering capacity to respond to coronavirus crisis would be eligible for support under the ESI funds. A number of simplification measures concerned the reporting and auditing of the ESI funds. National authorities could consider adjusting operations or select new ones in order to tackle the coronavirus outbreak. The proposal aimed at making the best possible use of unspent funds and facilitating the acceleration of programme implementation by frontloading payment appropriations. These measures do not imply any changes to the multiannual financial framework annual ceilings for commitments and payments.

On 2 April, the European Commission also launched a new temporary initiative designed to protect jobs and workers affected by the coronavirus outbreak – the SURE (support to mitigate unemployment risks in an emergency) initiative. The SURE initiative will provide Member States with financial assistance of up to €100 billion in total in the form of loans granted on favourable terms. These loans will help Member States to cover the costs of national short-time work schemes – public programmes allowing firms to reduce working hours while providing income support. The short-time work schemes should help sustain families' incomes and preserve the productive capacity and human capital of enterprises and the overall economy.

The Commission also adopted a temporary State aid framework on 19 March and amended it on 3 April, to increase investment flexibility and broaden the possibilities for public support. The new framework recognises that the entire EU economy is currently experiencing serious disturbances and aims to help channel economic support, while limiting possible negative consequences in the single market. It lists a number of temporary State aid measures compatible under Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU), which can be approved very rapidly upon notification, such as: direct grants, selective tax advantages, state guarantees for loans, subsidised public loans, short-term export credit insurance. The amendment of the temporary framework broadened its scope by adding support for measures related to the fight against the pandemic (R&D, testing facilities, etc.) and to specific companies in sectors or regions particularly affected by the crisis.

On 6 April 2020, the Commission announced that financing estimated at €8 billion would be made available to provide immediate financial relief for small and medium-sized businesses across the EU. The Commission has unlocked €1 billion from the European Fund for Strategic Investments to serve as guarantee for the European Investment Fund (EIF) to issue special guarantees to incentivise local banks and other lenders to provide liquidity for at least 100 000 European small and medium-sized enterprises and small mid-cap companies hit by the economic impact of the coronavirus pandemic, for an estimated available financing of €8 billion.

In addition, more flexibility was also introduced by changing the rules for the Fund for European Aid to the Most Deprived (FEAD), which provides around 13 million people in the EU per year with food aid and basic material assistance. This flexibility will make it easier to deliver food aid and basic material assistance and to provide protective equipment, thus lowering the risk of contamination.

The European Investment Bank (EIB) has created a €25 billion guarantee fund to enable the EIB Group to scale up its support for companies in all 27 EU Member States by mobilising up to €200 billion. This guarantee fund comes on top of the immediate support package already announced of up to €40 billion, including guarantee schemes, liquidity lines and asset-backed securities purchasing programmes.

In addition, measures on the free movement of critical workers also have a positive impact on cross-border regions. Following the reintroduction of internal border checks, the Commission presented guidelines to ensure the free movement of critical workers to enable them to reach their workplaces. In addition to calling on Member States to organise smooth border crossings for critical staff, the guidelines call on Member States to cooperate with regard to the passage of frontier workers in general, and posted workers if their work is still permitted in the host Member State.

# Sector-specific measures

A number of measures adopted may also help certain regions to support their agricultural and fisheries sectors. In addition, discussions between the European Commission and Member States have also begun on ways to support the much-affected tourism industry.

## Agriculture

Various measures have been adopted in the field of agriculture to support farmers and provide smooth transit for agricultural products. Ensuring the availability of goods and essential services and the free movement of workers has been an EU priority. Passage is now granted for all goods, including agri-food products. Green lanes, at designated key border crossing points, will have border crossing checks not exceeding 15 minutes. Seasonal workers who are critical to the agricultural sector in terms of harvesting, planting and tending functions, especially in the current season qualify as 'critical workers' to secure food-sector support. Farmers and other rural development beneficiaries will be able to benefit from loans or guarantees to cover operational costs of up to €200 000 at favourable conditions, such as very low interest rates or favourable payment schedules. In order to increase farmers' cash flow, the EU has increased advances of direct payments (from 50 % to 70 %) and certain rural development payments (from 75 % to 85 %). Farmers will start receiving these advances from mid-October. Higher State aid is also possible for farmers and food processing companies: under the temporary framework for State aid, farmers can now benefit from maximum aid of €100 000 per farm. Food-processing and marketing companies can benefit from a maximum of €800 000. This amount can be topped up by *de minimis* aid. This type of national support, specific to the agricultural sector, can be granted without prior approval from the Commission, and has a ceiling of €20 000 (and €25 000 in specific cases). On 23 April, the Commission presented additional exceptional measures to further support the agricultural and food markets most affected. The package includes private storage aid measures for the dairy and meat sectors, authorisation of self-organisation market measures by operators in hard hit sectors and flexibility in fruit and vegetables, wine and some other market support programmes.

## Support for the fishing industry

Fishing and aquaculture are among the sectors most immediately impacted by the crisis. The demand for seafood has plummeted, as retailers, restaurants, canteens and other large-scale buyers reduce or temporarily close activities. In order to deal with the socio-economic impact of the coronavirus crisis, the EU has taken several initiatives. The Commission will not request the refunding of unspent ESI funds, including the European Maritime and Fisheries Fund (EMFF). In addition, the CRII Regulation amends Articles 35 and 57 of the EMFF on mutual insurance funds, in order to be able to provide fishermen and aquaculture farmers with compensation to cover economic losses owing to a public health crisis.

Fisheries were also included in the new CRII+ package covering several legislative proposals. The proposal related to fisheries and aquaculture would amend the EMFF and the common market organisation (CMO) regulation to allow for support for the temporary cessation of fishing activities (as provided for under Article 33 of the EMFF Regulation) and support for aquaculture farmers for the temporary suspension of production or additional costs (Article 55 of the EMFF Regulation), caused by the coronavirus crisis and with co-financing by the EU of up to 75 %. It includes support for producers for the private storage of fishery and aquaculture products (see Articles 30 and 31 of the CMO Regulation for the storage aid mechanism and the prices below which storage aid is triggered, and Article 67 of the EMFF Regulation which previously ended this measure in 2019). It also allows for more flexibility in reallocating financial resources within the operational programmes and a simplified procedure for amending them with respect to the new measures.

In addition to the measures mentioned above, specific support for the sector is available via the temporary framework for State aid. It allows State aid up to a level of €120 000 per undertaking (previously up to €30 000) through direct grants, repayable advances or tax advantages. This temporary aid can be applied for immediately by Member States and will be granted until the end of the year. Other measures already available include existing EMFF measures, which the Commission highlighted in an information note (for example financial support for local fisheries action groups). Obviously, other measures open to all economic sectors can also be used to the benefit of the fisheries, aquaculture and processing sectors, including, for instance, the ESI fund flexibility measures and EIF and EIB instruments.

## The tourism industry

Tourism has been badly bit by the cancellation of flights, border controls, restriction of travel and accommodation cancellations. Many regions will suffer as a result of the slowdown of tourist activity. In order to monitor the problem and assess impacts and risks, the European Commission is in contact with Member States' ministries responsible for tourism, specialised international organisations (the United Nations World Tourism Organization and the OECD) as well as the EU tourism industry. At a videoconference on 27 April 2020, EU tourism ministers discussed the implications of the coronavirus outbreak on the tourism industry, mitigating measures and the recovery strategy for the tourism ecosystem, which is one of the most badly damaged by the crisis.

In his introductory speech to EU ministers, Thierry Breton, Commissioner for the Internal Market, mentioned the main support tools for the sector: the CRII, a €1 billion guarantee for the European Investment Fund, and the temporary SURE initiative for the protection of workers. He also mentioned that EU State aid rules allowed Member States to compensate companies for the damage directly caused by exceptional occurrences, such as the coronavirus outbreak.

On 13 May, the Commission presented a package of guidelines to help Member States gradually lift travel restrictions and allow tourism businesses to reopen. It includes: an overall strategy for tourism and transport in 2020 and beyond, a common approach to restoring free movement and lifting restrictions at EU internal borders in a gradual and coordinated way, and a framework to support the gradual re-establishment of transport while ensuring the safety of passengers and staff. The package also includes recommendations to make travel vouchers an attractive alternative to cash reimbursement for consumers, criteria for restoring tourism activities safely and gradually, and guidelines on developing health protocols for hospitality establishments such as hotels.

# European Parliament

Various committees have had to accelerate their work because of the coronavirus crisis, requesting that the urgent procedure under Rule 163 of the Rules of Procedure of the European Parliament be applied, and referring various European Commission proposals without amendment direct to plenary. As part of the EU's joint response to the coronavirus pandemic, MEPs approved the CRII, the CRII+ and a number of other measures during the plenary sessions of March II and April 2020.

Nevertheless, various committees did not merely approve the European Commission proposals but were also active in suggesting improvements to the European Commission's legislative packages. The case of the Committee on Regional Development (REGI) shows the degree of engagement. On 30 March, REGI chair Younous Omarjee, together with vice-chairs and political group coordinators, exchanged views via videoconference with Elisa Ferreira, Commissioner for Cohesion and Reforms, in preparation for the EU's further answers to the coronavirus crisis. The REGI chair, along with the vice-chairs, suggested a number of changes to the 2014-2020 Cohesion Funds, including: money being made available earlier than planned, a temporary increase in the co-financing rate for all categories of regions; increased flexibility in the thematic concentration provisions to allow the channelling of investments to the sectors in most need in these times of crisis, and a reduction in the administrative burden. Furthermore, a number of other priorities were mentioned, such as the introduction of the possibility of transfers between different categories of regions, greater flexibility for transfers between funds; mobilisation of more funds for health, adoption of social and economic measures related to the coronavirus pandemic and possible use of EU funding to support short-time work schemes. Several of these ideas were successfully reflected in the final CRII+ proposals.

The Committee on Agriculture and Rural Development (AGRI) held a debate with the Agriculture Commissioner, Janusz Wojciechowski, which focused on measures proposed by the Commission so far, including loans or guarantees at favourable conditions to cover operational costs of up to €200 000 and reallocating unused agriculture funds to fight the effects of the coronavirus crisis in rural areas. During a second debate with the Agriculture Commissioner, MEPs from the AGRI committee told him that the latest EU aid package for farmers was a good first step, but that it needed to be followed up with further action and money. They also expressed their alarm at the lack of funds to underpin the latest EU rescue package and called for the current aid measures to be extended to other agri-sectors.

Regarding the fisheries sector, after swift, unprecedented cooperation between Parliament's Fisheries Committee and the Presidency of the Council, the Commission's proposal was amended with an informal agreement reached over the Easter weekend. These changes will allow support to be given to fishermen who have just started their activity and those fishing without a boat, and allow provisions for outermost regions to be adapted to deal with the consequences of the crisis.

Members of the Tourism Task Force of the Transport and Tourism Committee called on the Commission to present a tourism rescue action plan, to ensure timely national and European assistance for the travel and tourism sector, including via national compensation schemes and financial aid instruments, and to establish a crisis-management mechanism for the sector. The Transport and Tourism Committee welcomed the Commission's latest package, notably the clarity on passenger rights and help for both sectors to overcome the coronavirus crisis.

# Advisory bodies

The European Committee of the Regions (CoR) has defined an action plan to help regions fight the pandemic. Calling for an EU health emergency mechanism, the idea is to foster EU support for local and regional authorities in the health sector, and to use CoR mechanisms to provide concrete feedback from local and regional level on how to address the health, emergency response, social and economic aspects of the pandemic and their impact on people and their local communities. It would also provide local and regional authorities with regular, practical, information about EU measures to address the crisis, so as to facilitate a reality check on the ground of the EU's measures to fight the pandemic and gather evidence and thus improve EU policies based on experience at local and regional level. As part of the plan, the CoR has launched an exchange platform to support regional and local communities across Europe.

On 21 April, the CoR's Conference of Presidents also called for an ambitious recovery plan for a sustainable, resilient and socially just Europe. The statement proposes to 'push the investment capacity of the EU budget by lifting, at least temporarily, the ceiling of the EU budget beyond the current 1.2 % [of] EU GNI [gross national income], and by considering new own resources'.

On 17 March 2020, the European Economic and Social Committee (EESC) made a declaration on the pandemic, 'saluting' the European Commission's first package of measures. It called for exceptional policy coordination and coherence at EU level, stating that an exceptional situation called for exceptional measures. It noted that the EU must first guarantee all supplies necessary to health systems and secure a comprehensive emergency package through which the EU would take responsibility for a meaningful share of the overall emergency effort. The EESC has also drafted a position paper on exceptional flexibility for the ESI funds and another paper on the CRII.

# Stakeholders

On 23 April 2020, the Cohesion Alliance called for continuity in the emergency measures backed by cohesion policy in the worst hit countries and territories, and for stronger than planned investment in cohesion policy in the 2021-2027 period. It demanded extraordinary financial initiatives to contribute to social, territorial and economic cohesion by addressing local tax losses and revenues and supporting local and regional authorities – and related public-owned companies – in running local services for citizens in the pandemic and post-pandemic scenario. It called for all levels of government to come together to invest in improved health services across the EU, both by increasing the funding for health under cohesion policy and by establishing a specialised health mechanism. It called for European groupings of territorial cooperation, Euroregions and all the EU's border regions to be involved in the fight against the virus, and in the future economic recovery.

In a letter to the European Commission, the Council of European Municipalities and Regions suggested that audit and control rules needed to be drastically relaxed to allow managing authorities to make rapid and secure use of the new measures and spending possibilities opened by the CRII. However, it considered that the ESI funds were not the most appropriate tool to respond to a one-off crisis. They should rather be used to strengthen the structural capacity of Member States and local and regional governments to protect public health and social and economic resilience.

In a joint statement of the Eurocities network, mayors of big cities across Europe called for cross-border solidarity during the crisis and strong collaboration between all levels of government. They raised concerns about the violent shock to local labour markets and sharp increases in unemployment, while also drawing attention to the fact that health and social services were stretched beyond limits, affecting vital city services for vulnerable groups, including the elderly, those at risk of domestic violence, homeless people, and people suffering from mental illnesses. They asked for a clear view on sustainably rebuilding communities and cities, and demanded that the EU's ambition of climate neutrality by 2050 and the European Green Deal stay on track.

In a statement, the Assembly of European Regions (AER) welcomed the measures undertaken by the European Commission but was concerned that granting exceptional flexibility to Member States to distribute the money coming from structural funds would carry the risk of recentralisation and potentially diminish the involvement of regional and local actors in the short and long term.

The European Leader Association for Rural Development has published a paper evaluating the impact of the coronavirus on rural communities. It has also made suggestions for the ESI funds, in particular the EAFRD and how to further enhance community-led local development (CLLD).

The European Network for Rural Development (ENDR) provides examples of projects and initiatives launched primarily by rural communities to cope with the coronavirus emergency, supporting rural businesses and fostering solidarity with vulnerable groups. It also provides information about Commission initiatives and action aimed at alleviating the current difficulties faced by rural areas.

FARNET, the network of people implementing community-led local development (CLLD) under the European Maritime and Fisheries Fund (EMFF) also hosts a webpage on efforts and actions being carried out by fisheries local action groups, national networks and managing authorities to help the EU's fisheries and aquaculture sector overcome the challenges presented by the coronavirus.

# Outlook

The measures introduced have the scope to provide local and regional authorities with the support they need to cope with the impact of the coronavirus pandemic. Through its direct involvement, the EU has a unique opportunity to show that not only is it an organisation that is united in diversity but that, when put to the test, it is united in adversity as well. The European Parliament has meanwhile demonstrated quick reflexes by adopting urgent legislation in record time and securing amendments to the proposals put forward by the European Commission.

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