



THE EU RESPONSE TO COVID-19

 #EUresponse4NZ

Implications for New Zealand Businesses

13 May 2020

LIGHTHOUSE EUROPE

Lighthouse Europe is a Brussels and Paris based consulting firm specialised in European strategies and Public Affairs supported by an international team

Our added value

- Help to understand and react to the impact of European and national legislation on their businesses
- Give the means to participate in decision-making processes
- Provide the tools to build influential outreach campaigns
- Create and manage interest coalitions



AGENDA

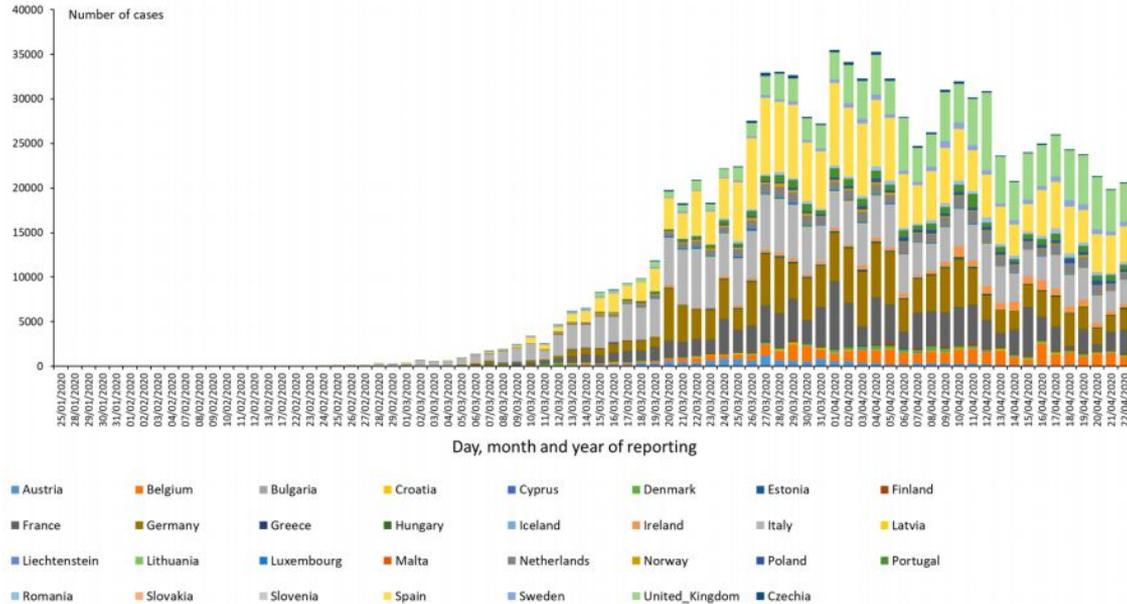
- **Recorded Address:** Mr. Axel Voss, Vice-Chair of the European Parliament Delegation to Australia and New Zealand
- **State of Play**
- **The EU Response to COVID-19**
- **Member States' Response to COVID-19:** Germany, Italy, United Kingdom
- **Implications for New Zealand businesses**
- **Questions and Answers**

AXEL VOSS - MEMBER OF THE EUROPEAN PARLIAMENT



STATE OF PLAY

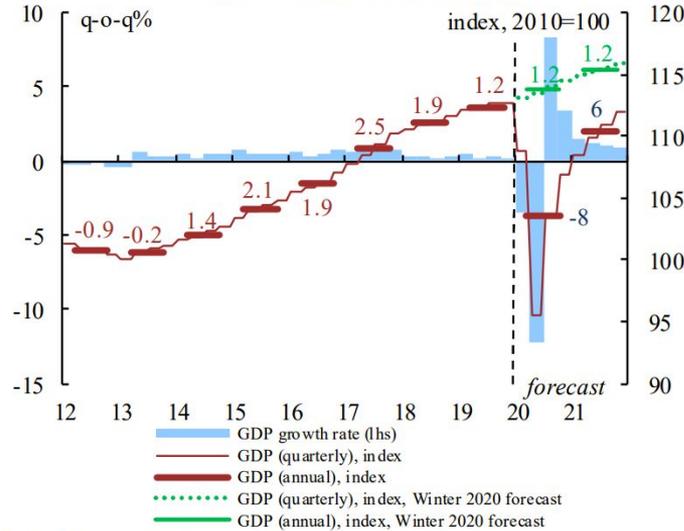
Figure 1. Distribution of new COVID-19 cases reported daily in EU/EEA countries and the UK, 22 April 2020



European Centre for Disease Control: [COVID-19 pandemic: increased transmission in the EU/EEA and the UK – eighth update](#)

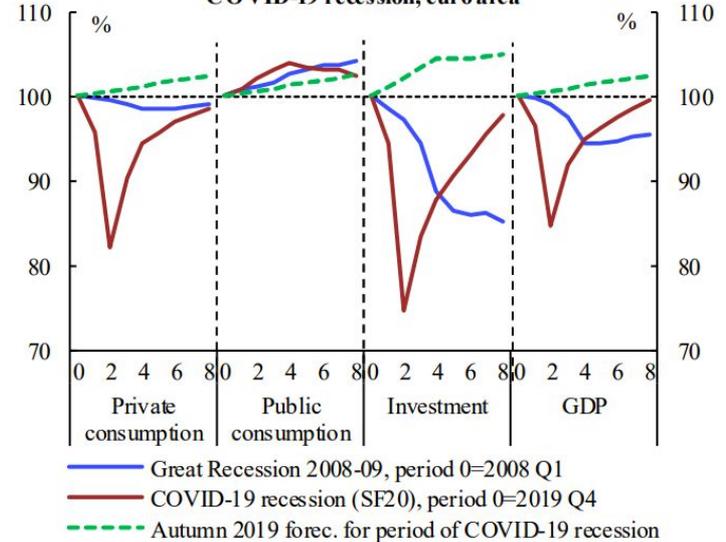
STATE OF PLAY

Graph I.1.1: Real GDP, euro area



Note: Figures next to horizontal bars are annual growth rates.

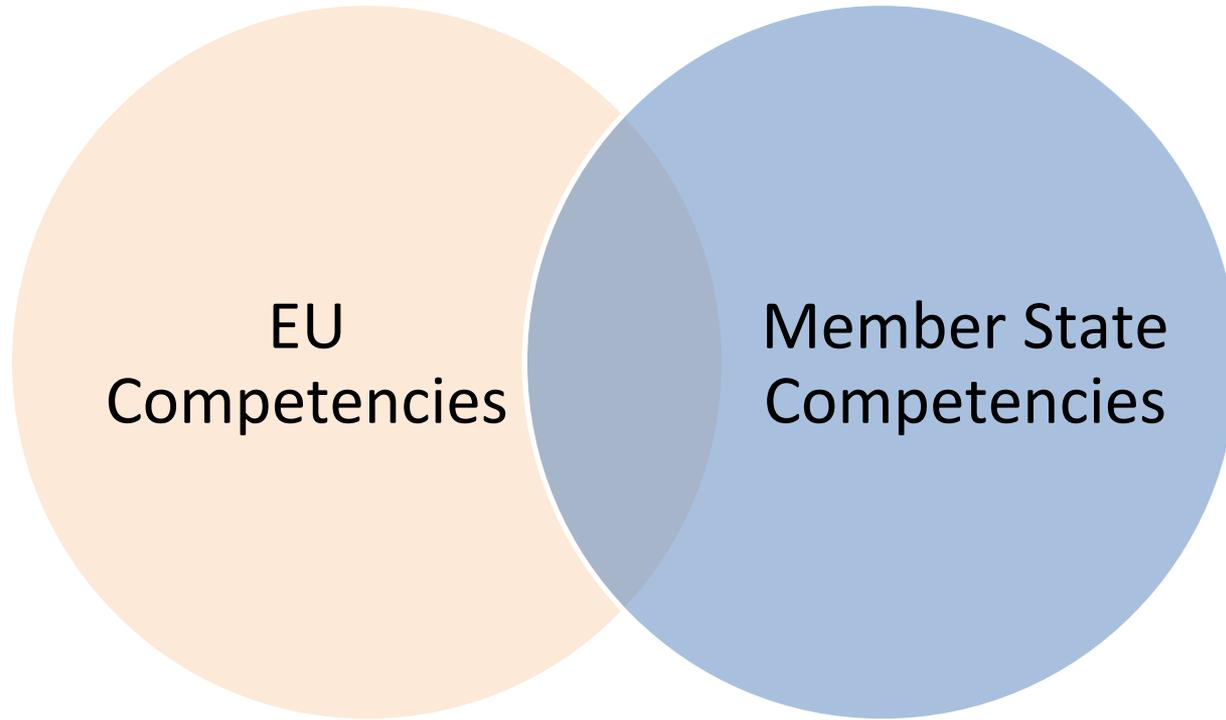
Graph I.1.18: Comparing recessions, 2008-09 crisis vs COVID-19 recession, euro area



European Economic Forecast. Spring 2020:

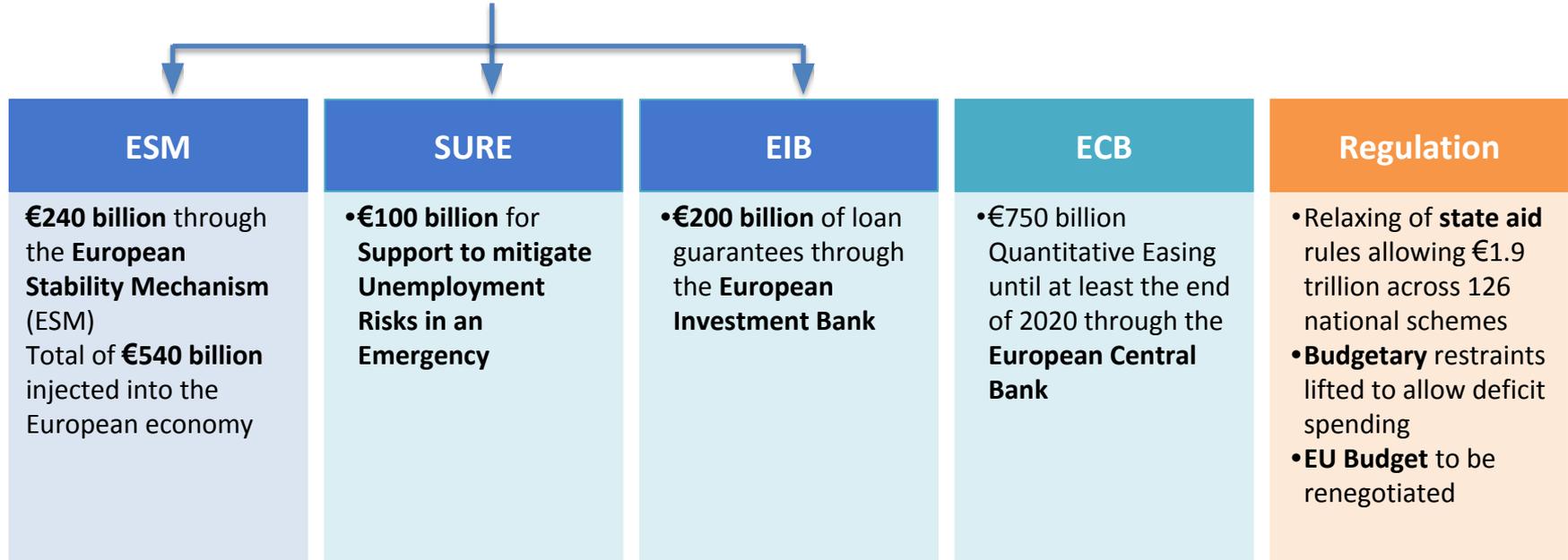
https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf

THE EUROPEAN LEGAL FRAMEWORK



EU COVID-19 RESPONSE PACKAGE OVERVIEW

€540bn Rescue Package



EUROPEAN STABILITY MECHANISM

- **€250 billion** loan scheme to support Member States response to the COVID-19, both directly and indirectly
- **ONLY** for those countries who have adopted the euro
- Operational from **1 June, 2020**
- Distributed directly to Member States

European Stability Mechanism



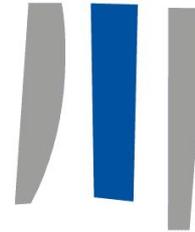
SUPPORT TO MITIGATE UNEMPLOYMENT RISKS IN AN EMERGENCY

- **€100 billion** in the form of loans from the EU to affected Member States
- Available to **ALL Member States** of the European Union
- Supports Member States efforts to shore up the **labour markets** and provide a temporary workers insurance.
- Distributed via Member States



EUROPEAN INVESTMENT BANK

- A guarantee fund of **€25 billion** supporting up to **€200 billion** for financing companies throughout the EU.
- Loans distributed via participating banks and banking networks.



**European
Investment
Bank**

The EU bank

EUROPEAN CENTRAL BANK

- **€750 billion Pandemic Emergency Purchase Programme (PEPP)**, under the corporate sector purchase programme (CSPP)
- On top of the **€120 billion** purchasing program
- Purchasing of assets will continue at least **until the end of 2020**
- *German Federal Court of Justice has cast doubt on future quantitative easing measures*



BUDGETARY RESTRAINTS LIFTED

- **Stability and Growth Pact** relaxed with the triggering of the **general escape clause** of the EU fiscal framework.
- Member States are now free to run their deficits up past the **maximum threshold of 4% of GDP** without triggering European sanctions
- **Aggregate government deficit** of the euro area to surge to **8.5%** in 2020



STATE AID RAMPED-UP

- State aid rules are within the exclusive competence of the European Union Competition Authority.
- State aid measures have been ramped up significantly clearing 126 schemes worth **€1.9 trillion**
- Half of these schemes are from Germany
- A concern this could distort competition in the long-run



THE EU BUDGET

- The **Multiannual Financial Framework** will be adjusted.
- European Commission is seeking to expand the budget to **2% of EU GDP** and set aside an additional **€1.5 trillion Recovery Fund** (potentially from September) financed through borrowing on the financial markets





ADDITIONAL EU POLICY MEASURES

EU TRAVEL RESTRICTIONS

- Travel restrictions are in place across the European Union until at least **15 May**
- *Border control is a Member State competence.* Check the specific country you have a questions about
- A coordinated response will occur at European level, but this does NOT mean it is a uniform response
- **External borders** will reopen to give access for **non-EU residents in a second phase**. The timeline for this is still unclear. A safe bet is to not travel to Europe before the end of the European summer
- The Commission will adopt a new broad package on tourism, transport and borders on 13 May (today)



MEMBER STATES' RESPONSES

GERMANY

- **GDP** cut to **-6.3%** in 2020. Recession to bottom out in the second quarter and rebound in the economy should be felt in 2021 with an expected expansion of **+5.2%**.
- Initial rescue package worth **750 billion euros**
 - Supplementary budget of **156 billion euros**
 - Stabilisation fund worth **600 billion euros** for loans to struggling businesses and direct stakes in companies
 - **100 billion euros** of this would be used to take direct equity stakes in companies to stop foreign takeovers.
- The **Federal Ministry of Economy and Energy** has also set up a **Supply Chain Contact Point** for companies. Companies experiencing problems with regard to international supply chains should contact kontaktstelle-lieferketten@bmwi.bund.de
- *Germany will hold the Presidency of the Council of the European Union from June*



ITALY



- **GDP** cut to **-9.5%**. The most impacted regions are also the **most productive ones** (Lombardy, Veneto and Emilia Romagna, alone, account for **40% of the Italy's GDP**)
- Luxury and GI products face steep decrease in demand as foodservice channels close and demand shifts to basic goods and retail channels
- A **€1 billion Emergency Fund** established to protect agricultural sector
- Government currently drafting a **€55 billion** package for further support
- **Kiwifruit market** has seen an increase in demand but faces strong competition from Greek growers
- Differentiated measures taken on a region-by-region basis from **18 May**. Important to look at regional policies rather than the country

UNITED KINGDOM

- GDP cut to **-8.3%** in 2020.
- £42 billion [Coronavirus Job Retention Scheme](#) to pay 80% of workers' salaries.
- **Valued-added tax (VAT)** payments deferred for the next quarter until 30 June 2020
- **Coronavirus Business Interruption Loan Scheme (CBILS)**, delivered via the British Business Bank to provide lenders with a guarantee of 80% on each loan up to £25 million in value.
- **Bank of England** will keep official interest rate at **0.1%** and injected a further **£200 billion** into the UK economy through quantitative easing.

Brexit: The United Kingdom officially left the European Union on 31 December 2019 and the two parties have now entered a withdrawal period until 31 December 2020. Negotiations on the future relationship are ongoing. According to the terms of the withdrawal agreement, EU law still applies in the UK.



IMPLICATIONS FOR **NEW ZEALAND** BUSINESSES

IMPLICATIONS FOR NZ BUSINESSES

Uneven Economic recovery

- Shock is symmetric across the EU due to high interdependencies between Member States, **but**, An **uneven recovery** will dampen future growth and demand in the EU
- Many of the markets particularly relevant to NZ agriculture have been dramatically affected including, beef, lamb and dairy
- **Result:** NZ businesses (and agriculture in particular) may find it more difficult to find markets in the EU

Potential trade restrictions limiting access to EU market

- European Commission seeking restriction on the implementation of the Mercosur trade agreement - targeting particularly beef imports
- European Commission is also pressured to act at WTO level to implement tariffs to protect the EU market
- Political discussion on supply chains may shift to policy action and changes to industrial and trade strategies
- Risk that New Zealand is caught in a net of policies aimed at “strategic rivals”
- **NZ-EU FTA critical in the medium term for future trade relationship**

Future Milestones

- 13 May (today) the European Commission will release a package for borders, tourism, and transport
- 20 May, the European Commission will release a comprehensive Recovery Plan
- German Constitutional Court ruling on ECB quantitative measures
- A ‘no-deal’ Brexit is not factored into economic forecasting which could influence future growth projections



QUESTIONS AND ANSWERS