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SPAIN RECOVERY PLAN: WHAT IS REALLY IN IT?

IMPLICATIONS OF THE FIRST WAVE OF BAILOUTS FOR ENERGY AND CLIMATE POLICIES



THE EUROPEAN UNION: NEW CRISIS, SAME RECIPE?

The measures taken to deal with the health emergency arising from the spread of COVID-19 have led to an unprecedented economic slowdown. As a result, public institutions have activated plans, mechanisms and instruments that are intended to stop the shock, reactivate the economy and restore pre-pandemic normality. In this context, at a time of great uncertainty big business, like the banks during the financial crisis of 2008, is taking advantage of public policy and enjoying the benefit of massive rescue packages.

At European level, two financial institutions have been responsible for performing this task: the European Central Bank (ECB) and the European Investment Bank (EIB). In the case of the ECB, it created the Quantitative Easing (QE) programme in 2014 to respond to the 2008 financial crisis. The mechanism used involved buying assets to purchase debt from the eurozone countries and the purchase of corporate bonds, from which more than 300 big companies have benefited, including BMW, E.ON, Enagás, ENEL, ENI, Peugeot, Renault and Ryanair.

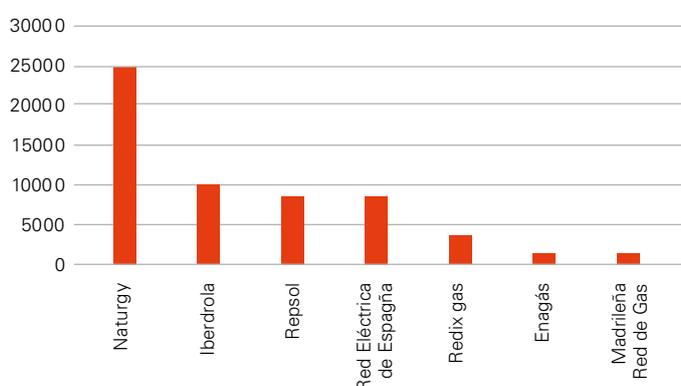
On 24 March 2020, as a result of the economic impact of measures implemented to contain COVID-19, such as border closures and lockdowns, the ECB authorised¹ a €750-billion extension of the programme

1 Approval of the Pandemic Emergency Purchase Programme: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020D0440>

(the Pandemic Emergency Purchase Programme (PEPP)).² The process of selecting beneficiary companies was delegated to the central banks of Belgium, France, Germany, Italy and Spain, with the eligibility criteria being the financial stability of the company and the quality of the debt.³

The very blueprint for the PEPP means that it is only available to big business. Bond issues entail costly procedures and are only made for amounts ranging from hundreds of millions to billions of euros. Furthermore, the eligibility criteria for bank intermediaries do not include any exclusions or conditions relating to social, environmental or climate aspects and it is stated that “there will be no positive or negative discrimination on the basis of the economic activity of the issuing entities”, and so large companies like Total, Airbus, Shell and E.ON and more than 50 other multinationals are reaping the rewards. In the case of the energy sector, Spanish companies, including most notably Iberdrola, Naturgy, Red Eléctrica de España and Repsol, were granted bailouts of €58 billion for the period until 30 October 2020.

AMOUNTS ALLOCATED (MILLIONS OF EUROS) BY THE ECB TO SPANISH COMPANIES IN THE ENERGY SECTOR UNTIL OCTOBER 30



The EIB, the public investment bank of the European Union (EU), will also play a vital role in the post-pandemic recovery plans. It has created an emergency package worth €40 billion⁴ and a guarantee fund worth €25 billion to mobilise €200 billion of private capital.⁵ These two mechanisms will be used to facilitate loans, by means of guarantees, and to support small and medium-sized enterprises (SMEs). It should be noted that the processes that have been established are not very democratic and not very transparent, as information from financial entities is only provided if the promoter has not provided legitimate reasons to protect its confidentiality.

Furthermore, they do not take into account any environmental and social criteria, which flies in the face of the energy policy approved for the years ahead⁶ and the EIB’s claim that it is a climate leader in the public finance sector, as expressed in the Climate Bank Roadmap 2021-2025.⁷

2 The Pandemic Emergency Purchase Programme: www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html
 3 Pandemic Emergency Purchase Programme eligibility criteria: www.ecb.europa.eu/mopo/implement/omt/html/cspp-qa.en.html
 4 The EIB emergency package: www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-covid-19
 5 The EIB Pan-European Guarantee Fund: www.eib.org/en/press/all/2020-126-eib-board-approves-eur-25-billion-pan-european-guarantee-fund-to-respond-to-covid-19-crisis?utm_source=twitter&utm_medium=Social&utm_campaign=PressRelease&utm_content=na&cid=Social_twitter_PressRelease_2020-05-26-12_en_na_na_na
 6 The EIB Energy Lending Policy: www.eib.org/attachments/strategies/eib_energy_lending_policy_en.pdf
 7 The EIB Climate Bank Roadmap 2021-2025, position paper: www.euractiv.com/wp-content/uploads/sites/2/2020/06/final_eib_group_cbr_position_paper_15_06_2020.pdf

HOW HAS THE SITUATION DEVELOPED IN SPAIN?

The EIB has approved, and transferred to the Spanish government, a loan of €1.5 billion⁸ for the *Instituto de Crédito Oficial (ICO)*, which is the public bank in charge of providing liquidity to private banks so that they can lend money to companies and freelance workers. This body was created in 1971 and is attached to the Ministry of Economic Affairs and Digital Transformation.

The ICO has also been the body in charge of managing the mechanisms and instruments approved by the Spanish government to stimulate economic recovery during the lockdown caused by COVID-19. These mechanisms have been:

- 1/ the guarantee for short-term loans;⁹
- 2/ the purchase of promissory notes from companies;¹⁰ and
- 3/ guarantees for promissory notes.¹¹ Other indirect aid for companies has also been created, such as public contracts awarded by emergency means without any prior tender, through public-private partnerships (PPPs),¹² as well as aid from city councils and autonomous communities.

SPANISH STATE



Instituto de Crédito Oficial (ICO)

Who runs it?

The Ministry of Economy

What type of support does it provide?

Guarantees and promissory notes

Guarantees and purchase of corporate debt (promissory notes): repayable support.

If a business goes bankrupt, the State picks up the bill.

Credit line for business

investment **€ 40 billion.**

Credit line providing liquidity for self-employed workers and businesses: **€ 100 billion**

with **30%** going to large companies:

€ 29.5 billion.

Sociedad Estatal de Participaciones Industriales (SEPI)

Who runs it?

Attached to the Ministry of Finance

What type of support does it provide?

Investment in businesses, repayable and indirect support

Solvency Fund for Strategic Companies:

€ 10 billion.



Indirect support for businesses

Contracts awarded via emergency line and public-private partnerships (PPPs). Updated value 14 March to 21 June:

€ 2.14 billion.

8 The EIB loan to the ICO: www.eib.org/en/projects/pipelines/all/20200190

9 This is a guarantee for loans of up to five years to companies and freelance workers

10 This involves a debt that a company issues to finance itself and undertakes to repay the amount with the interest stipulated with the issuer. It is similar to a bond, but has shorter terms.

11 Investors buy the debt issued by the company, and the ICO acts as a guarantor.

12 A definition of public-private partnerships: <https://odg.cat/en/publication/ppp-privatization-tools/> & <https://bankwatch.org/public-private-partnerships/background-on-ppps/what-ppp>

There was a first wave of guarantees and purchases of promissory notes between March and June 2020, with the Spanish government assigning the beneficiaries a sum of €100 billion. In early July, a new line of investment guarantees for companies, amounting to €40 billion, was announced, and another one worth €10 billion for a fund aimed at ensuring the solvency of strategic businesses through the purchase of shares.¹³ This is managed by the state-owned holding company *Sociedad Nacional de Participaciones Públicas* (SEPI), the strategic body attached to the Ministry of Finance that ensures that the activities of the companies and sectors are in line with the government's policies.¹⁴

In parallel with the process of issuing guarantees and purchasing promissory notes, the Committee for Economic and Social Reconstruction (*Comisión para la Reconstrucción Social y Económica*) was established within the Spanish Congress of Deputies. Its purpose was to discuss and determine which measures should be taken in the areas of health, the European Union and social and economic affairs that would enable the recovery from the multi-faceted crisis generated by COVID-19. The Congress voted on the conclusions for each area on 29 July, where the conclusions of the social area were not approved, but it was for the areas of health, European Union and economy.

THE DEVIL IS IN THE DETAIL

The loans and financial support offered by the ICO are usually managed through the big Spanish commercial banks such as Bankia, BBVA, Caixabank, Santander and Banc Sabadell, among others. The role of intermediaries makes them the main beneficiaries of the process because it allows them to make a profit through the margin between the interest on the credit they obtain from the ICO and the interest they set on the loans they offer to companies.

When it comes to the guarantees and purchases of promissory notes approved by the Spanish government to deal with the impact of COVID-19, three negative elements can be identified:

- 1/ the risk of public debt: the government, through the ICO, assumes the non-repayment of the funds received by the companies through the general budget;
- 2/ a lack of conditionalities: the beneficiary companies are required not to have their headquarters in a tax haven, allowing their subsidiaries to have one,¹⁵ nor are they allowed to distribute dividends for an unspecified period; and
- 3/ a lack of transparency: the information published on the ICO's website and official government channels does not state which companies have benefited, the amount granted or the mechanism involved. Some of the beneficiary companies have been uncovered by researching their press releases and news, as they are required to publish details of any relevant loan operations.

It should be noted that 30% of the total value of the guarantees and purchases of promissory notes was intended to benefit big business. The lack of exclusion criteria and of social and environmental/climate-related conditions and conditions relating to workers' rights has allowed companies in the sectors that have contributed most to global warming, that have a history of ecological, climate, social, gender and/or revolving-door impacts, that have subsidiaries in tax havens and/or that have been decapitalised by distributing substantial dividends to their shareholders in recent years,¹⁶ to have access to these grants. This has been the case, for example, for Iberia, Vueling, OHL and NH Hotel Group.

13 El País: <https://elpais.com/economia/2020-07-02/el-gobierno-lanzara-una-nueva-linea-de-avales-de-40000-millones-para-financiar-la-economia-digital-y-la-ecologica.html> (in Spanish)

14 SEPI: www.sepi.es/en/get-know-sepi/who-we-are

15 La Marea – Yoibextigo: www.yoibextigo.lamarea.com/informe/noticias/ibex-35/acciona-melia-ferrovial-ertes-y-paraisos-fiscales-en-el-ibex-35 (in Spanish)

16 Press release about a letter sent to members of the Spanish Parliament: <https://odg.cat/es/prensa/carta-diputados-rescates> (in Spanish)

WHO IS BEING RESCUED WITH THE EXCUSE OF COVID-19?



BUSINESS
NH Hoteles, S.A.

Among the top 10 in Europe, top 30 worldwide; Sector: Tourism, Hotels; Activity: Hotel chain (361 Hotels in 29 counties)

PUBLIC SUPPORT RECEIVED

ASSOCIATED CONDITIONS/REQUIREMENTS

guarantee
ICO For three-year bank loans worth
€ 250,000,000

The business must not have been in trouble before COVID-19. The support must not be used to offset existing debt. The business must not use tax havens for tax avoidance purposes.

furlough
ERTE The State pays workers and exempts the business from social security contributions. **3,236 employees**

The business must not have its tax domicile in a tax haven (but it may have branches there). Some restrictions apply to dividend payments in a single financial year.

HOTEL SECTOR Possibility of exemption from paying **50% of social security contributions** for employees with a permanent seasonal contract from July to October



BUSINESS
Iberia & Vueling (IAG)

Sector: Aviation; Activity: Passenger transport, aircraft maintenance, airport assistance and air cargo

PUBLIC SUPPORT RECEIVED

ASSOCIATED CONDITIONS/REQUIREMENTS

loan
ICO **€190,000,000**

Some restrictions apply to dividend payments (the same as banks).

guarantee
ICO For bank loans worth.
€ 568,000,000
(70% of € 810,000,000 in bank loans)

The business must not have been in trouble before COVID-19. The support must not be used to offset existing debt. The business must not use tax havens for tax avoidance purposes.

ERTE Vueling: **3,800 employees** Iberia: **13,900 employees**

The business must not have its tax domicile in a tax haven (but it may have branches there). Some limitations apply to dividend payments in a single financial year.

Solvency Fund for Strategic Companies

Additional financial support envisaged, in the form of capital, for Iberia's acquisition of Air Europa

The economic conclusions of the Committee for Economic and Social Reconstruction looked set to include some of the exclusion criteria and conditionalities to deal with the impacts set out in the previous paragraph, as various parties in the Congress of Deputies, including Spain's governing parties, the Social Democrats (PSOE) and the left-wing party *Podemos*, lent their support to an amendment including days. However, a few days later, the PSOE withdrew its support for the amendment, but the distribution of dividends was the only conditionality not included in the economic conclusions.

Although it will not be possible for these eligibility criteria to be deployed as part of the mechanisms and instruments approved for the first wave of aid, worth €100 billion, they could be applied in future extensions and introduced at a later stage.¹⁷

17 20 Minutos: www.20minutos.es/noticia/4313520/0/el-psoe-suprime-las-condiciones-para-rescatar-empresas-que-habia-apoyado-dos-dias-antes/?autoref=true (in Spanish)

A public consultation process was also carried out so that citizens and other interested parties could provide their input, but none of the proposals were incorporated into the conclusions.

WHAT SHOULD RESCUE PACKAGES BE LIKE TO ENSURE A JUST SOCIO-ECOLOGICAL TRANSITION?

The amendment presented in the economic conclusions of the Committee for Economic and Social Reconstruction was in part the result of joint research by the Debt Observatory in Globalisation (ODG – *Observatori del Deute en la Globalització*), *Ecologistas en Acción* (Ecologists in Action) and the Observatory of Multinationals in Latin America (OMAL – *Observatorio de Multinacionales de América Latina*), which culminated in a communication and advocacy campaign in the weeks before the vote in the Congress of Deputies.¹⁸

The main complaint was that it was considered disproportionate that such a lot of resources be allocated to companies to the detriment of the financing necessary to ensure welfare, social protection and the implementation of socio-ecological transition measures.

WHAT ECONOMIC SUPPORT HAS BEEN DEPLOYED TO TACKLE THE COVID-19 CRISIS?



In addition, the granting of aid by the ECB and the ICO to polluting companies establishes a link between the two parties. This relationship means that financial institutions want to ensure the viability of the fossil-fuel sector so that the aid is returned, which puts at risk the achievement of a just social-ecological transition in the short term.

The lack of exclusion criteria and the conditionality surrounding social, environmental/climate and labour aspects in the bailouts to companies in the fossil-fuel sector is an obstacle to meeting the objectives of the Paris Agreement. This support also is at odds with the Integrated National Energy and Climate Plan (INECP) 2021-2030¹⁹ approved by the Spanish government, which sets the following objectives for the end of this decade: (1) to reduce emissions by 23% with respect to 1990; (2) 42% of energy must come from renewable sources; and (3) to improve energy efficiency by 39.5%.

18 Joint communication and advocacy campaign of ODG, *Ecologistas en Acción* and OMAL: https://odg.cat/pagines_campanyes/res-cates-covid19 (in Spanish)

19 Integrated National Energy and Climate Plan (INECP) 2021-2030: https://ec.europa.eu/energy/sites/ener/files/documents/es_final_necp_main_en.pdf

Campaigners have demanded that bailouts ensure a just socio-ecological transition and therefore should be:

- 1/ transparent
- 2/ fair
- 3/ effective

It should be noted that these demands were set out based on the Spanish context, but they can also be extrapolated to the realities situation in different countries and territories.

In order for the economic bailouts to be transparent, there must be public scrutiny. This requires the publication of the names of the companies that have benefited from public funding and the amounts and conditions involved on the website and in the annual reports of the relevant public body. The number of meetings held between company representatives and government departments should also be published. In addition, independent bodies need to be established to supervise the aid and keep an eye on the companies that benefited.

A fair rescue package is all about prioritising aid for those companies whose activity contributes to a just socio-ecological transition and a change in the model for providing and managing goods and services. Therefore, companies that do not meet the following criteria should be excluded from such aid:

- 1/ climate: sectors whose activities exacerbate the climate crisis and do not contribute to compliance with the Paris Agreement, such as the fossil-fuel, aviation and automotive sectors;
- 2/ environmental: companies with a history of reported impacts on resources and biodiversity and of having been the subject of complaints about pollution;
- 3/ human rights: companies in breach of human rights legislation and/or with proceedings ongoing in international human rights courts;
- 4/ social and gender: companies in sectors with negative social impacts, such as the arms sector and those whose workers operate under precarious conditions;
- 5/ financial: companies with substantial profits and/or which have recently distributed extraordinary dividends, and groups involved in or convicted of corruption or serious economic crimes and which have subsidiaries in tax havens.

Companies that are eligible for bailouts must be required to comply with social, gender, environmental, climate and work clauses in order for the bailout to be effective. Specifically, they must:

- 1/ draw up an emissions reduction plan in line with the Paris Agreement;
- 2/ not allow the distribution of dividends until the aid is fully repaid;
- 3/ accept a certain amount of control by the Spanish state and workers, including them in the Board of Directors until the aid is repaid;
- 4/ not allow staff restructuring or layoffs for six months after full repayment of the aid;
- 5/ limit the maximum remuneration paid to the company's executives;
- 6/ waive the right to sue the Spanish state;
- 7/ pay taxes in Spain.

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ODG

The Debt Observatory in Globalisation (ODG) was established in 2000 for the purpose of being a critical analysis instrument for complex and/or structural processes in social movements. The work of our research team is aimed at demonstrating the visible (and invisible) impacts and risks of the capitalist and patriarchal system, by producing tools which facilitate interpretation of the current context. ODG is also an open platform for participation, debate and action, which promotes the creation of networks and spaces for building alternatives which strengthen popular sovereignties and empower communities. For the past five years, our work has, in part, focused on the study of worldwide energy models. Together with other European organisations, we have established that there should be a more in-depth analysis of the promotion and momentum of natural gas, both through the host of newly planned infrastructures, as well as the actors supporting it and in perfect concert with financial capitalism.

www.odg.cat

ROSA-LUXEMBURG-STIFTUNG, Brussels Office

The Rosa-Luxemburg-Stiftung is an internationally operating, left-wing non-profit organisation providing civic education. It is affiliated with Germany's 'Die Linke' (Left Party). Active since 1990, the foundation has been committed to the analysis of social and political processes and developments worldwide. The Stiftung works in the context of the growing multiple crises facing our current political and economic system. In cooperation with other progressive organisations around the globe, the Stiftung focuses on democratic and social participation, the empowerment of disadvantaged groups, and alternative economic and social development. The Stiftung's international activities aim to provide civic education by means of academic analyses, public programmes, and projects conducted together with partner institutions. The Rosa-Luxemburg-Stiftung works towards a more just world and a system based on international solidarity.

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