MAY 2018

ASSESSMENT OF EUROPEAN COMMISSION PROPOSAL FOR THE EU BUDGET 2021-2027

BRIEFING PAPER

Climate Action Network (CAN) Europe is Europe's largest coalition working on climate and energy issues. With over 140 member organisations in more than 30 European countries - representing over 44 million citizens - CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.

The European Commission published its proposal on the next EU budget for the period 2021-2027 (the so called Multiannual Financial Framework – 'MFF') on 2. May.

Half of the current EU budget (€67 billion in 2014) is spent on energy infrastructure, transport, housing and waste management, small and medium sized enterprises, research and innovation and the economic development of Europe's regions. Another large part (€55 billion in 2014) goes to European farmers and into Rural Development.

Thus the EU budget is the EU's main investment instrument for many sectors of the economy. However, currently the EU budget's potential to support the clean and just transitions in all these sectors is largely untapped.

This briefing describes the main element of the EC proposal for the EU budget 2021-2027, assesses its climate performance and develops recommendations for the upcoming legislative proposals.

In its proposals for the post-2020 EU budget the European Commission indicates increased ambition on climate action. To fully realize this potential the upcoming sector specific legislations should:

- Settle ambitious quantitative climate action targets;
- Provide for guidelines and criteria that ensure climate and environment protection and exclude fossil fuel support;
- Ensure the integration of EU funded plans and projects into national and cross-border energy infrastructure and mobility plans, with view to achieving Paris agreement objectives.

I. Number crunching

The European Commission is proposing an EU budget of 1.114% of GNI, or 1.279 trillion euro for 2021-2027 (payments commitments, in current prices). The EU budget is structured into 7 'headings', with numerous funds and programmes under each heading (around 40 in total), see Figure 1.

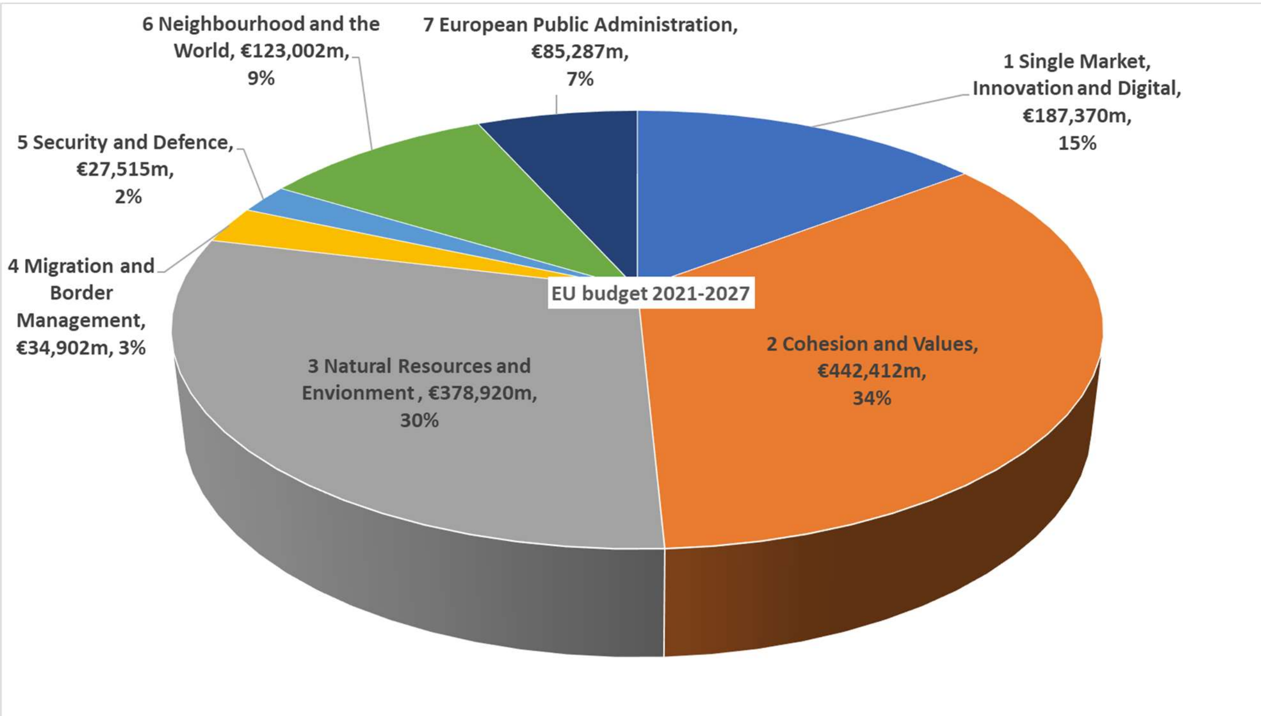

Figure 1: EU budget 2021-2027; current prices; EC proposal 2 May 2018

The European Commission proposes to increase the budget, up from 1.03% for 2014 -2020: Innovation & Digital going UP; Cohesion & Values going DOWN; Natural Resources & Environment going DOWN for agriculture/fishery (while those still make up 98% of the entire heading and thus still around 30% of the entire EU budget), and going UP for climate and environment; Migration & Border Management going UP; Security & Defence going UP; Neighbourhood & World staying FLAT; Administration staying FLAT. See figure 2.

The Commission proposes to increase the climate mainstreaming across all EU programmes from 20 to 25%.

(EUR million - 2018 prices; commitment appropriations)

TOTAL MFF 2021 -2027		Δ 2014-2020	TOTAL MFF 2014 -2020	
1 Single Market, Innovation and Digital	166,303	24,173	142,130	1a: Competitiveness for growth and jobs
2 Cohesion and Values	391,974	61,332		
Of which: Economic, social and territorioal cohesion	[330,642]	-40,791	371,433	1b: Economic, social and territorial cohesion
3 Natural Resources and Envionment	336,623	-83,411	420,034	2. Sustainable Growth: Natural Resources
Of which: Market related expenditures and direct payments	[254,247]	[-54,487]	[308,734]	of which: Market related exp. and dir. payments
4 Migration and Border Management	30,829	30,829		
5 Security and Defence	24,323	6,598	17,725	3. Security and citizenship
6 Neighbourhood and the World	108,929	42,667	66,262	4. Global Europe
7 European Public Administration	75,602	6,018	69,584	5. Administration
Of which: Administrative expenditure of the institutions	[58,547]	-29	29	*'compensation'
Total commitment appropriations	**1,134,583**	47,386	**1,087,197**	
as percentage of GNI	**1,11%**		**1,03%**	
Climate mainstreaming **25%**	283,646	66,206	217,439	**20%**

Figure 2: Comparison EC proposal MFF post 2020 with current MFF; 2018 prices; own calculation

This proposed spending increase comes along with a set of new 'Own Resources': The new sources to finance the EU budget include 20% of the revenues of the Emission Trading System; a 3% call rate applied to the new Common Consolidated Corporate Tax Base; and a national contribution based on the amount of non-recycled plastic packaging waste in each member state (€0.80 per kilo). These would represent 12% of the total EU budget (around €22bn).

The Commission has as well proposed to gradually eliminate national rebates after Brexit[1]. Instead of eliminating the paybacks for the Netherlands, Sweden, Austria and Denmark immediately after Brexit, the institution suggested phasing them out over the next five years.

The following chapter assesses to which extent the most climate action relevant funds and programmes address the requirement for the EU budget to serve climate ambition in line with the Paris Agreement.

II. Climate performance

Through the Paris Agreement on climate change, the EU committed to keep global warming well below 2°C and to pursue efforts to limit it to 1.5°C (compared to pre-industrial levels). Translated into emissions pathways, this means that carbon neutrality must be achieved globally in the second half of this century the latest. The Paris Agreement also aims to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". In other words, by signing the Paris Agreement, the EU committed itself to become carbon neutral and to design their policy instruments – including the EU budget – accordingly.

On this background it is crucial that the next EU budget strengthens the EU's climate objectives and policies, including the achievement of 2030 climate and energy targets. The money spent

[1] The current EU budget has a number of correction mechanisms, 'rebates', designed to re-balance what has been perceived as 'excessive contributions' by certain member states: The mother of all rebates is the UK rebate, which reimburses the UK by 66% of the difference between its contributions to the budget and the funds received by the UK. The effect of this rebate is to increase contributions required from all other member states, to make up the loss from the overall budget. However, Austria, Germany, the Netherlands, Denmark and Sweden get rebates on their contribution to make up for the UK rebate.

and the projects funded must be in line with the objective of paving the way towards a zero-carbon and climate resilient economy. Hence the EU budget should:

- help build a strong domestic market in renewable energies and support a 100% renewable power system;
- put energy efficiency first in investment plans and programmes, e.g. to speed up the renovation of the building stock;
- roll out zero-emission mobility and the decarbonisation of the transport sector;
- provide for opportunities to foster technological leadership and innovation in the development of clean and sustainable renewable energy solutions;
- boost climate change mitigation and adaptation in forestry and agriculture to ensure that farming practices are genuinely contributing to resilient ecosystems and sustainable management of natural resources and to climate action;
- support ambitious sub-national, national and cross-border climate adaptation plans and measures in EU Member States and neighbouring countries;
- strengthen resilience to climate change in partner and developing countries, particularly through increasing climate finance support for adaptation that targets and reaches the most vulnerable communities, sectors and regions suffering the impacts of climate change more severely;
- also help to put citizens at the heart of the clean energy transition by providing tailored financial support to communities and vulnerable households and supporting the Just Transition in regions with particular transformation challenges.

At the same time, the EU budget needs to become 100% climate proof: EU money must not be used for projects that, by driving additional GHG emissions, would be at odds with the climate commitments made.

The current EU budget (2014-2020) has some important climate-relevant features such as 'climate mainstreaming', the political target to spend 20% of the EU budget on climate action, or the strategic link to the EU 2020 climate and energy framework.

While these features indicate important efforts to integrate climate action across EU spending, the EU budget's full potential to catalyze the zero-carbon transformation in Europe remains largely untapped: the share of EU funds going to clean energy and sustainable mobility[2] are tiny, fossil fuels still receive EU support.

Is the European Commission's EU budget post-2020 proposal changing course, helping to bring the EU in line with the Paris Agreement?

a) Horizontal integration – climate mainstreaming

Ensuring the quantitative target. According to the European Commission's proposal climate action should be mainstreamed across all EU programmes, with a target of 25% of all expenditure contributing to climate objectives. This is a 5% increase from the current target. The climate effort

[2] Member States plan to spend on average a mere 7% of all their EU 2014-2020 Cohesion Policy funding on energy efficiency, renewables, electricity distribution, storage and smart grids.

would span policies on regional integration, energy, transport, research and innovation, agriculture as well as development aid, summing up to €320bn in total.

However, the EU might fall short of channelling 20% percent of the EU budget funds on climate efforts over the 2014-2020 budget cycle: on average, the EU budget trend would deliver 18,8% for the MFF period[3]. More than half of the suggested climate action is accounted for as 'climate change adaptation' within the direct payments to farmers and the rural development funding of the Common Agricultural Policy. Another 25% of the EU's climate action is attributed to investments into rail infrastructure. This leaves a relatively small share of finance for the required transformative investments into structural changes of the countries' economies.

Currently the legislations for the European Regional Development Fund and for the Cohesion Fund include minimum climate earmarking (15% or 20% depending on the region) for the objective 'support the shift to the low-carbon economy'. 35% of Horizon 2020, the current research and innovation programme, is earmarked to fund climate-related projects. For all other funds, in particular on cross-border infrastructure or agriculture, there are no quantitative specifications on climate action shares.

RECOMMENDATION 1: In order to ensure a minimum threshold of at least 25% of the overall MFF while at the same time to explore all potential opportunities to achieve 40%, binding minimum earmarking for climate action throughout the sector specific legislation should be established. (see Annex 1)

In addition to ensuring the minimum quantitative targets it is important to understand the transformative impact of the various climate action investments throughout the different sectors. E.g. currently large parts of the funding to European farmers, both direct payments and under rural development programmes, are labelled 'climate action'. However, the extent to which the activities have a positive environmental and additional climate impact is questionable and should be proven more concretely. Within Cohesion Policy the current approach to assessing levels of climate action funding focuses on identifying planned expenditure via so called 'Rio Marker' without differentiating between climate change mitigation and adaptation or assigning it to e.g. the energy or transport sector.

The European Court of Auditors[4] recommends to set up a comprehensive reporting framework and an assessment of climate change needs. Overestimates (in agriculture and research) should be corrected, and that actual spending and results should be monitored. Finally, the ECA recommends to explore all potential opportunities to ensure a further, real shift towards climate action in the EU budget.

In addition, we note that reporting climate financing within the international context (e.g. commitments under the UNFCCC) is not consistent across EU Member States and institutions; governments and the European Commission have a number of variations on how they use the Rio Marker to report. This trend makes it difficult to assess the quality of support and the extent

[3] STATEMENT OF ESTIMATES OF THE EUROPEAN COMMISSION for the financial year 2018, http://ec.europa.eu/budget/library/biblio/documents/2018/statement-of-estimates-of-the-european-commission.pdf page 101

[4] http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=39853, http://ec.europa.eu/budget/mff/lib/COM-2016-603/COM-2016-603_en.pdf

to which it is delivering international climate objectives. For example, a recent report[5] on international climate finance by Act Alliance found that a substantial amount of EU climate finance is delivered as loans. In 2016, 41% of climate finance from EU institutions was provided as loans, while only 30% of the total climate finance from EU institutions and EU member states went to adaptation.

RECOMMENDATION 2: The European Commission should improve its 'climate action tracking' methodology to get a realistic picture about the volume and actual impact of climate action spending of the EU budget. It needs to distinguish between funding for mitigation and adaptation measure and the sectors concerned. There needs to be better scrutiny about the results achieved, including the EU budget's financial instruments. (see Annex 2, for suggestions on Rio Marker in Cohesion Policy)

Climate proofing the entire budget. Whereas the increased quantitative climate action target is a step in the right direction, pointing at higher climate ambition in the EU budget, the Paris Agreement requires all financial flows to be made consistent with zero carbon and clean energy development. This requires the EU not only to meet its climate specific spending target, but also that the whole EU budget has to be 100 % climate proof. Such a *climate compatibility check* should take a programme lifecycle approach within a long-term/2050 perspective to avoid climate adverse effects of interventions and to ensure climate benefits. This needs to include improved GHG emission accounting systems. In consequence such climate compatibility would lead to directing investments towards the most resource-efficient and sustainable options; it would avoid investments that may have a negative climate impact as it would take a long-term perspective when 'life-cycle' costs of alternative options for investment are compared. Excluding fossil fuels from receiving EU funding would be one such requirement.

However, the European Commission at no point of its communication declares fossil fuels for non-eligible.

In its spending review the European Commission declares that more than 500 major projects in the period 2014-2020 are subject to climate proofing: while the cost-benefit analysis takes into account greenhouse gas emissions, the current approach of the Cost-Benefit-Analysis falls short of taking a long-term perspective on GHG emission reduction requirements.

Regarding infrastructure investments the European Commission's proposals emphasizes that only 'sustainable infrastructure' would receive EU funding. Cohesion Policy would be delivering on the transition to the low carbon economy and be in 'alignment with sustainable development'. 'InvestEU', the Union's new investment instrument, would include a 'sustainability proofing' of investment which should help orienting capital flows towards sustainable investment.

However, at this point the EU budget proposal lacks definition and operationalization of what is 'sustainable' and 'climate friendly'.

RECOMMENDATION 3: Any EU funding which is not compatible with the greenhouse gas emissions reduction targets or clean energy policies should be discontinued. Every budget line and investment plan and programme, respectively every infrastructure projects (energy, transport, industry, buildings, agriculture), should undergo a mandatory ex-ante climate compatibility check including whether the projects will adequately contribute to achieving the

[5] http://actalliance.eu/news-post/new-study-finds-that-the-eu-must-revise-its-climate-finance-policies/

2030 and 2050 EU climate and energy objectives. Fossil fuel infrastructure should be excluded from EU support. To this end the sector specific legislations should provide for project eligibility and selection criteria ensuring the operationalization of climate protection requirements.

RECOMMENDATION 4: As current environmental assessment tools, in particular the Strategic Environmental Impact Assessment tools (SEA) are not appropriate to cover such a comprehensive climate impact assessment, they should be complemented by a new Climate Impact Assessment (CIA) instrument for the EU budget. Every EU budget line should be subject to regular monitoring and reporting on how it is contributing to the EU's decarbonization and clean energy goals, including an ex-post assessment of real emission reductions achieved.

RECOMMENDATION 5: In order to ensure alignment with the EU's long-term decarbonisation goals Member States need to develop National Energy and Climate Plans to 2030 which are in line with the requirements of the Paris Agreement. Centrally managed funds and those under shared management relevant for achieving 2030 climate and energy targets need to be integrated into NECP development and implementation. In setting priorities, objectives and conditions for EU funding post-2020, Member States and the European Commission need to ensure that EU funding contributes to increasing national climate and energy objectives. Allocations to national 'EU budget envelopes' should be linked to the level of climate ambition.

RECOMMENDATION 6: The newly created flexibility mechanism ('Union Reserve') of the EU budget must cover climate action requirements. It should enshrine an incentive scheme (e.g. a performance reserve or flexibility instrument from unallocated capacities) that addresses ambition and implementation gaps of the EU 2030 climate and energy framework.

RECOMMENDATION 7: Structural reform recommendations within the European Semester need to embrace sector specific transition requirements (energy, mobility, housing and urban living, agriculture, industry). The EU budget thus needs to address identified investment needs.

The Commission has also emphasised the importance of the EU budget's performance and suggests that the EU budget should set clearer objectives and focus on a smaller number of performance indicators.

RECOMMENDATION 8: The performance based approach should focus on what climate mainstreaming actually delivers in terms of reduced GHG emissions and increased resilience. This includes establishing clear objectives and related performance indicators.

b) Climate action in individual programmes

Cohesion Policy. Cohesion Policy remains the EU's main investment tool to further economic development. European Regional Development Fund and the Cohesion Fund priorities have been reduced from 11 to 5, with climate action and sustainable development featuring prominently:

1. 'A Smarter Europe': funding to promote business and entrepreneurship, including the circular economy and climate change;
2. 'A greener carbon free Europe: clean and fair energy transition, to enhance energy efficiency; to support transition to low-carbon economy; to stimulate renewable energy; to support innovative use of low-carbon technologies, to support green and blue

investment, including in sustainable natural resource management, circular economy, climate adaptation and mitigation;'

3. 'A more connected Europe:' promoting sustainable transport and smart energy grids, ICT connectivity;
4. 'A more social Europe: implementing the principles of the European Pillar of Social Rights';
5. 'A Europe closer to citizens: sustainable and integrated development through local initiatives'.

In addition, the Commission proposes a change to the allocation method for Cohesion Policy funding: whereas GDP remains the main indicator for distribution of funds a range of fresh indicators such as demographics, youth unemployment, and climate change making up 20 per cent of allocations would be introduced.

Higher co-financing is foreseen, 'to help increase ownership and impact of the programmes by the member states'. Partnerships with local stakeholders and civil society would improve quality of spending and bring EU funds closer to the citizens. Next generation of funding should be flexible enough to adjust programmes according to emerging priorities during the mid-term review. And investments in physical infrastructure should be accompanied by 'soft measures', e.g. the upskilling of the labour force.

Cohesion Policy should be further aligned to the European Semester and related structural reforms as laid down in National Reform Programmes.

However, in order to fully realize the transformational potential of Cohesion Policy funding, the structural reform agenda must go beyond macro-economic considerations which leave out the structural composition of various economic sectors, respectively the need of its restructuring. One opportunity to expand this scope is to link Cohesion Policy plans and programmes to National Energy and Climate Plans for 2030 as a basis for 'programming'.

The Commissions concept for future Cohesion Policy opens a lot of opportunities for climate action. Indeed, EU funds can address local smart grids and renewable projects, they can be used to support regions most vulnerable to climate risk, and to assist communities dependent on high-carbon industries to develop their just transition pathways.

To ensure the full climate action potential of European Regional Development Fund, Cohesion Fund and European Social Fund will be realized up to 2030, the specific legislations need to enshrine the following provisions:

RECOMMENDATION 9: Binding climate action earmarking should be set a legislative level:

ERDF = 70%, CF = 60%, ESF = 25%

RECOMMENDATION 10: Climate action measures should receive higher EU co-financing than other projects.

RECOMMENDATION 11: Cohesion Policy programming should go hand in hand with NECP development, ensuring EU funds deliver on maximum pledges on GHG emission reduction, Renewable Energy Sources and Energy Efficiency in line with the requirements of the Paris agreement. Flexibility and mid-term review should be used to increase climate action of programmes. A 'just transition' strategy should be anchored both in programmes and NECPs, integrating the various dimensions (infrastructure, business and industry, work force development). The above should be ensured through a system of ex-ante conditionalities.

RECOMMENDATION 12: the Partnership Principle should be legally strengthened to ensure meaningful participation and contribution of local stakeholders and civil society in programming and implementation.

Common Agricultural Policy. The EC communication promises to 'support the transition towards a fully sustainable agricultural sector', placing greater emphasis on the environment and climate. While maintaining the '2-pillar' structure of direct payments and rural development funding, the policy should move from 'compliance-based' towards 'result orientation', including the development of 'Common Agricultural Policy Strategic Plans' by Member States laying out needs and interventions. The plans would be based on a common set of objectives and 'in line with international commitments' and with EU environmental and climate objectives; EC would need to approve those plans.

From this perspective the coherence with National Energy and Climate Plans (NECPs) and integration of GHG emission reduction objectives from agriculture into NECPs seems to be appropriate.

The proposal contains as well voluntary eco-scheme for direct payments and ring-fencing parts of rural development funding to climate and environment.

To ensure a higher level of environmental and climate ambition some environmental safeguards have to be enshrined in the CAP legislation:

RECOMMENDATION 13: making all health, climate and environmental objectives mandatory for all Member States, while increasing the earmarking within the first (40%) and second pillar (80%) for such objectives.

RECOMMENDATION 14: include clear safeguards to prevent CAP funding to be used in perverse subsidies that will cause environmental, climate and economic damage over the short and long run.

The **Connecting Europe Facility** would continue to invest in trans-European transport, digital and energy networks. In particular, a specific focus should lay on innovative infrastructure solutions such as smart grids, energy storage, e-mobility, charging infrastructure, and alternative fuels and its infrastructure. Renewables integration would be supported by a functional cross-border Green infrastructure (energy and digital).

Aiming at the decarbonization of transport, at the completion of the energy network within the internal electricity market, and at the building of a smart and digitized energy network to integrate cross-border renewables, the European Commission leaves it open whether the Connecting Europe Facility will continue financing fossil fuel infrastructure, in particular gas, which would be a violation of the Paris agreement.

RECOMMENDATION 15: Binding climate action earmarking for the different CEF strands should be set a legislative level: Transport = 80%, Energy = 100%, Digital = 20%

RECOMMENDATION 16: Support for gas infrastructure should be excluded from the CEF.

RECOMMENDATION 17: National infrastructure planning (via NECPs and Cohesion Policy programming) should include the assessment of cross-border renewable electricity infrastructure needs. Projects identified should receive PCI status.

InvestEU is the Union's (new) investment programme, the successor of the European Fund for Strategic Investments (EFSI). It is composed of the InvestEU Fund, InvestEU Assistance (European Investment Advisory Hub under the 'Juncker Plan') and the InvestEU Portal. It will centrally bundle all existing financial instruments, providing an EU guarantee with a view to mobilising public and private financing for 'strategic investments in the support of EU policies'. It would contain a mechanism for 'sustainability proofing' of investment to help orienting capital flows towards sustainable investment.

The European Investment Bank (EIB) will be the main implementer, but National Promotional Banks or other International Financial Institutions (such as the EBRD) would as well contribute to the delivery of 4 various 'windows': sustainable infrastructure, research and innovation, social investments and skills, small and medium-sized enterprises.

The InvestEU predecessor (EFSI) failed to prove sustainability and additionality.[6] And in particular the participation in the InvestEU of non-EU institutions or organs which are not bound to EU policy objectives and standards requires stringent legal provisions ensuring sustainability of the entire portfolio.

RECOMMENDATION 18: A climate action objectives for all investment windows of 60%.

RECOMMENDATION 19: Projects should undergo a systematic climate proofing. Detailed sustainability guidelines including sector-specific criteria for the key sectors climate- and environment-wise (energy, transport, industry, buildings, agriculture) should be adopted. Importantly, such guidelines should exclude support for fossil fuel infrastructure.

EU's research & innovation programme **Horizon Europe** is composed of a 3-pillar structure:

1. Open Science – to promote academic excellence;
2. Global Challenges and industrial competitiveness - the achievement of the Sustainable Development Goals, health, food and natural resources, resilience and security, climate, energy and mobility to secure a low-carbon, circular and climate-resilient society, industrial competitiveness and other societal challenges. This programme would follow 'Industrial leadership';
3. Open Innovation – 'bottom-up' grants and market based instruments for market-creating innovation via the European Innovation Council.

RECOMMENDATION 20: 50% of research & innovation funding should be earmarked towards tackling Global Challenges.

[6] https://bankwatch.org/wp-content/uploads/2017/11/same-thing-EFSI.pdf

RECOMMENDATION 21: support dissemination efforts to increase public and political acceptance of clean technology innovation and its relevance in the public debate on climate change solutions.

LIFE, the programme for environment and climate action. It would deliver on biodiversity and nature protection. But prominent as well the focus on the circular-, low-carbon-, and climate-resilient economy. This encompasses support for the clean energy transition and small-scale renewables and energy efficiency, with 1/3rd reserved for climate action.

RECOMMENDATION 22: increase LIFE budget to 1% of the overall MFF.

RECOMMENDATION 23: make LIFE climate grants better accessible to NGOs and provide better support for civil society engagement in climate policy development and implementation.

Global Europe. The proposal on external action – called the 'Neighbourhood, Development and International Cooperation Instrument' – sets out to promote the EU's interests, objectives and values in neighbouring and partner countries. Part of those interests and objectives is the implementation of the SDGs, the Paris Agreement and the Partnership Framework on migration. The external action element of the EU budget proposal has been led jointly by DG Development and Cooperation and the EU's External Action Services (EEAS); numerous external action instruments fall under the mandates of these two EU bodies.

The new proposal seeks to include the European Development Fund (EDF) in the next budget – up until now, it has been operating outside the EU budget. This change increases the overall percentage of financing for external action from 6% to 9% but the level of finance more or less remains the same as the current budget. It has a strong focus on migration, security and peace. In addition, there is more emphasis on flexibility of the external action instrument, largely due to the view that financing should be more easily accessible, particularly in the event of unplanned circumstances or events, such as the resources demands stimulated by migration into and across Europe in recent years.

The instrument will also have an 'external investment architecture' which is a similar concept to InvestEU but with a focus on financial investments mobilising finance outside the EU. The architecture aims to streamline the numerous financial guarantee schemes that incentivise private and other sources of finance in external projects and programmes - the (new) External Investment Plan, the EIB's External lending Mandate, the provision on Macrofinance, the Guarantee Fund and the ACP Investment Facility. It is difficult to say how effective these schemes have been for bringing about additional development or climate benefits. In relation to support for climate action, the focus of these schemes will be mainly on mitigation activities in partner countries.

RECOMMENDATION 24: 50% of the Global Europe Instrument should be allocated to actions that have clear and measurable climate co-benefits.

RECOMMENDATION 25: prioritise public support for essential needs in developing countries, including climate change adaptation and access to on and off-grid renewable energy. Ensure that support for some of the most vulnerable developing countries will continue, irrespective of the geographic and thematic themes laid out in the new instrument.

RECOMMENDATION 26: The new external investment architecture should address the risks of blended finance to the overall architecture of international development cooperation and global environmental and climate objectives. It should ensure that a common standard of reporting is established for all providers using blended finance instruments.

c) New Own Resources

The European Commission wants to create several new sources of revenues for the EU budget, including a redirection from selling CO_2 emission permits under the bloc's emissions trading system, and a new tax on nonrecyclable plastics.

20% of auction revenues from the European Emissions Trading Scheme would go to the EU budget and not to national accounts. This would make up another 2%.

However, as 50% of current EU ETS revenues are meant to be earmarked for climate spending on national level, by channelling ETS revenues to the EU budget climate action on national would lose out.

RECOMMENDATION 27: establish a carbon tax alongside the EU Emission Trading System (ETS) as new source of income for the EU budget.

III. Conclusions

The European Commission communication on the EU budget 2021-2027 signals a higher level of ambition on climate action. Both by increasing the climate action target from 20% to 25%, and as well when describing objectives and priority measures for individual programmes.

However, there is a clear lesson to learn from the current funding period: a quantitative target without a priori commitments, quality control or a solid tracking and monitoring methodology risks losing its climate credentials. Conspicuously, the Commission does not explicitly ban from its funding projects that pose negative environmental and climate impacts.

The upcoming sector and programme specific legislations need to make up for those deficits, to ensure the EU budget will genuinely server higher climate ambition in the EU and the world.

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