OCTOBER 2019

Negotiating the MFF 2021 -2027: **EU BUDGET FOR HIGHER CLIMATE AMBITION**

BRIEFING PAPER

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 160 member organisations from 35 European countries, representing over 1.500 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

Torn between the cuts caused by Brexit, new challenges to be addressed and the investments needed for the transition towards 'net-zero emission' economies, negotiations over the next EU budget post-2020 are entering their final phase. After more than one year of stalled negotiations, the Finnish Presidency is tasked to present to the European Council an alternative proposal as a basis for an agreement by the end of the year. However, this timeline is said to be ambitious and it is expected that a compromise on the next Multiannual Financial Framework (MFF) for the EU for the period 2021-2027 will only be reached in 2020. Negotiations by Member States on the EU's long-term climate objective to reach climate-neutrality by 2050 run in parallel, spilling over to the MFF negotiations. At the same time a new Commission is about to be installed, with a political agenda focused on delivering a European Green Deal which will impact the content and size of the next MFF.
To deliver on these challenges the EU must agree on an EU budget that supports climate neutrality and uses 40% of its funds to support climate action.

RECOMMENDATIONS

Member States when negotiating a compromise on the EU budget should agree :

- to spend a binding 40% of the MFF on climate action and update the funds' specific legislations accordingly;
- to focus Cohesion Policy on sectoral decarbonization and the Just Transition and thus increase the Thematic Concentration for the 'green, low-carbon Europe' (PO2) to 40%.

The Council, European Parliament and Commission (DG Regio), when picking up the trilogues on Cohesion Policy, should agree:

- to exclude all support to the use of fossil fuels;
- to strengthen the link between the use of EU funds and higher ambition delivery in the National Energy and Climate Plans (NECPs);
- to ensure all EU funds spending plans, programmes and projects follow the Energy Efficiency First principle and are embedded in sectoral and regional decarbonisation pathways.

The European Commission in the meantime should:

- improve the current climate mainstreaming methodology to ensure only genuine and direct climate action is accounted for;
- establish a mechanism to ensure the climate action target of the future MFF is met;
- develop an enhanced and comprehensive climate proofing concept applicable to the entire MFF, going beyond the current 'project based' approach towards a strategic, long-term planning concept, putting climate neutrality at the centre of every underlying EU funds spending plan, programme or strategy.

BACKGROUND

In May 2018 the European Commission presented its proposal for the EU's long-term budget for 2021-2027, a Multiannual Financial Framework (MFF) of EUR 1,279.4 billion[1], see figure 1.

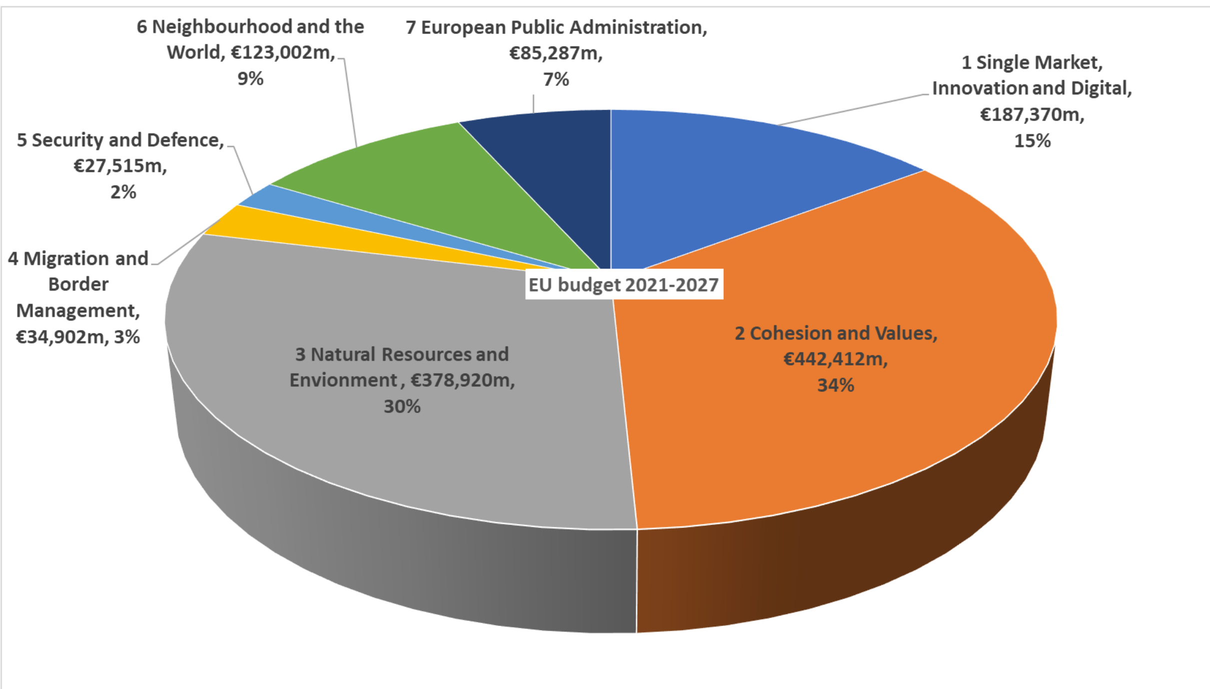

Figure 1: EU budget 2021-2027; European Commission proposal May 2018, million EUR; CAN Europe

This proposal had to adjust to the revenue gap caused by the possible departure of the UK, the second biggest economy of the EU and a 'net-contributor' to the MFF (i.e. a country whose contributions to the EU budget are higher than the amount of EU funding flowing back to the country via the various EU funds, see figure 2), causing a financial shortfall estimated at EUR 84-98 billion over seven years. The European Commission intended to compensate that financing gap by proposing cuts to programs much wanted by many Member States (agriculture, cohesion policies), by increasing Member States' contributions (in particular DE, SE, NL, DK would see an

[1] 2018 prices; https://ec.europa.eu/commission/sites/beta-political/files/budget-proposals-modern-eu-budget-may2018_en.pdf

increase in their contributions), and by introducing 'new own resources', respectively a combination of all these options.

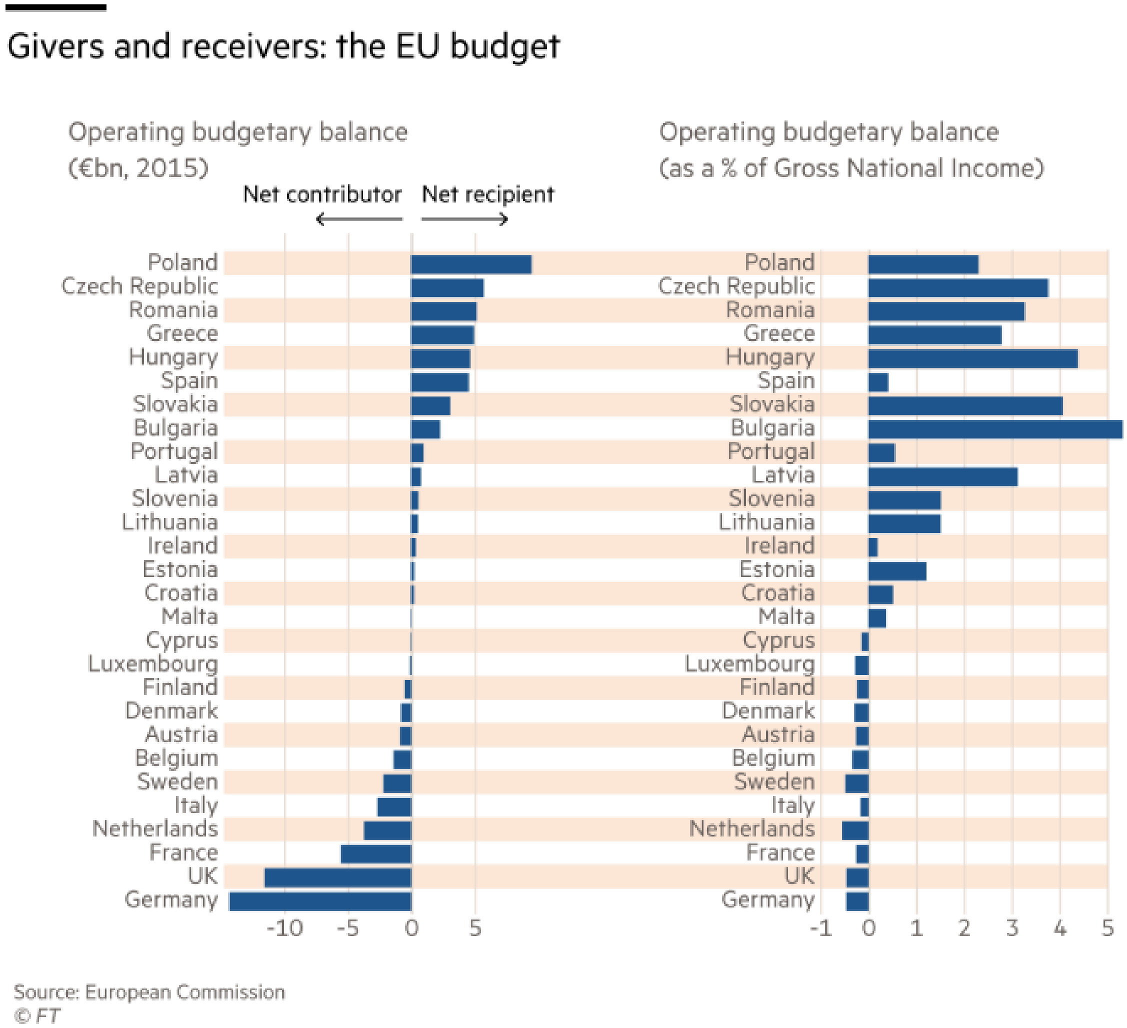

Figure 2: EU Member States 'budgetary balances'; source: Financial Times

On top of the need to fill the budgetary shortfall due to Brexit, the European Commission was encouraged by Member States to address 'new challenges' and increase spending in specific areas accordingly, such as for migration and border control, asylum, security and defence, digital transformation, and an Eurozone budget, which all together would require significant additional resources between 2021-2027.

The above constellation ended in an MFF proposal which, while higher compared to the current 2014-2020 MFF, on one hand led to cuts in 'traditional policies' enshrined in the EU treaties, i.e. the Common Agricultural Policy and Cohesion Policy (both together making up roughly 2/3 of the EU budget) affecting in particular countries with a strong agricultural sector and the EU's less developed regions in the East and South. On the other hand it implied that net-contributors to the EU budget would need to pay more into the joint funding pot.

Country	2021-2027	2014-2020	Absolute change (euro billions)	Relative change (%)
POLAND	64.4	83.9	-19.5	-23.3
HUNGARY	17.9	23.6	-5.7	-24
CZECH	17.8	23.5	-5.6	-24
GERMANY	15.7	19.8	-4.1	-20.6
SLOVAKIA	11.8	15.1	-3.3	-21.7
LITHUANIA	5.6	7.4	-1.8	-24
PORTUGAL	21.2	22.8	-1.6	-7
ESTONIA	2.9	3.8	-0.9	-24
FRANCE	16	16.9	-0.9	-5.4
LATVIA	4.3	4.9	-0.6	-13
CROATIA	8.8	9.3	-0.5	-5.5
SLOVENIA	3.1	3.4	-0.3	-9.2
MALTA	0.6	0.8	-0.2	-24
IRELAND	1.1	1.2	-0.2	-12.6
SWEDEN	2.1	2.1	0	0
NETHERLANDS	1.4	1.4	0	0
AUSTRIA	1.3	1.3	0	0
DENMARK	0.6	0.6	0	0
LUXEMBOURG	0.1	0.1	0	0
CYPRUS	0.9	0.9	0	1.8
BELGIUM	2.4	2.4	0.1	0
FINLAND	1.6	1.5	0.1	5.1
BULGARIA	8.9	8.3	0.7	8
GREECE	19.2	17.8	1.4	8
SPAIN	34	32.4	1.6	5
ROMANIA	27.2	25.2	2	8
ITALY	38.6	36.2	2.3	6.4

Figure 3: Cohesion Policy national envelopes; euro billions; 2018 prices

In particular cuts in the national envelopes tied under Cohesion Policy, see figure 3, were bitterly received by a number of (mostly) countries from Central and Eastern Europe which jointly declared disagreement and asked to return to previous levels of EU funding.

The calculation of each Member State's share is based on the so-called 'Berlin formula' and changes of the national envelopes result from Member States' economic development (80% of the envelope is tied to economic performance), youth unemployment, and challenges stemming from migration and climate ambition.

Whereas the European Parliament for its part[2] is calling for an MFF of the size of 1.3% of the EU 27 GNI, a group of 'net-contributors' however, opposed to an increase of their contributions, is asking to reinstall the current level of the MFF at 1% of GNI.

See below figure 4 for a comparison of the negotiation positions.

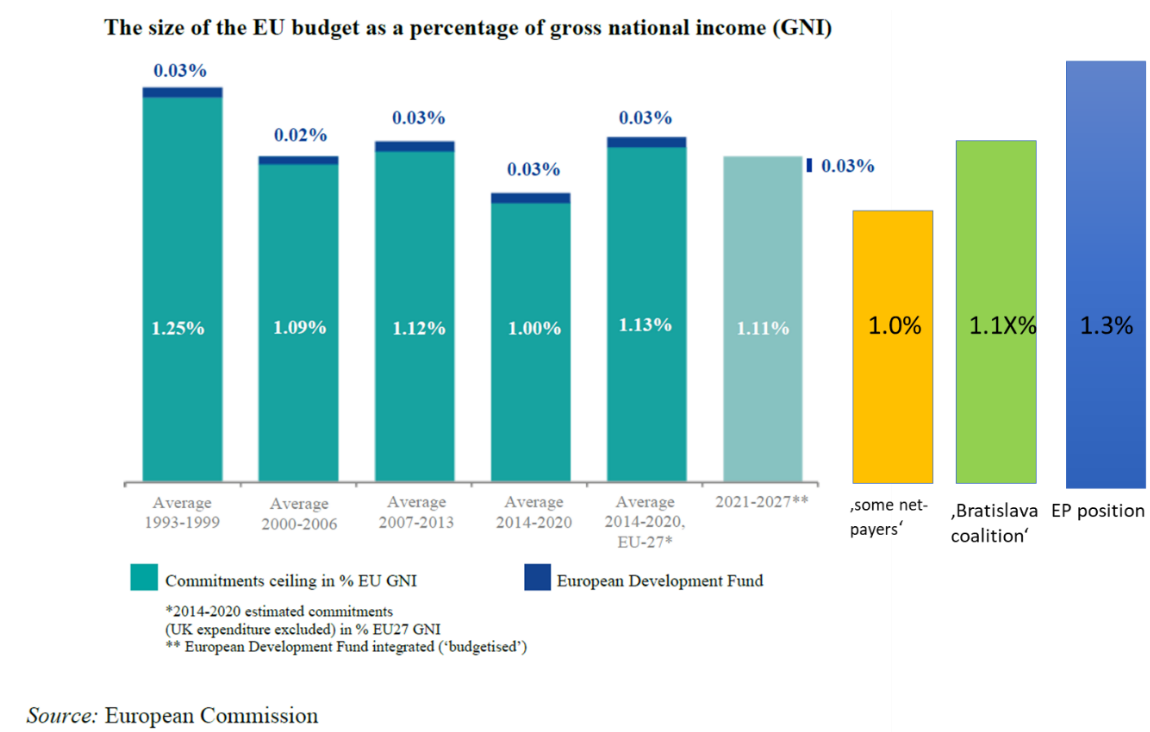

Figure 4: MFF commitments as % of EU GNI; European Commission; edited by CAN Europe

[2] http://www.europarl.europa.eu/doceo/document/TA-8-2018-0449_EN.html?redirect

Recommendations: EU budget for higher climate ambition

The European Union counts a number of different EU-level investment instruments[3] but the EU budget remains the most important one in terms of relative volume and creative power at the hands of the European Commission. It only accounts for 2% of total public spending in the EU, but has a significant impact on certain territories (Central, Southern and Eastern Europe) and policy domains (e.g. agriculture and cohesion). In addition, due to the increasing use of financial instruments, conditionalities and the link to climate policies (e.g. the integration into the Energy Union Governance framework via National Energy and Climate Plans or climate mainstreaming, the European Commission proposal to spend 25% of the MFF on climate action), EU spending has a significant capacity to influence national investment choices and mobilise additional public and private investment in support to EU's climate objectives.

The final MFF negotiations are happening at a time when the new European Commission is launching its 'Green Deal for Europe', including the adoption of the EU's long-term climate objective to achieve climate-neutrality by 2050, the expected proposal to increase the EU's currently insufficient 2030 climate target, a EUR 1 trillion 'Sustainable Europe Investment Plan' and the introduction of a new 'Just Transition Fund' to support regions, communities and workers that are most vulnerable in the transition to a climate neutral society.

However, to tap into the gull potential of the EU budget to deliver on climate neutrality and making it a powerful catalyser for transformational investments throughout the economy, it is important to increase the climate action of the MFF and to ensure it is in compliance with the Paris Agreement in all its funding:

1. The climate mainstreaming target has been set at 25% for the overall MFF and more specific climate targets have been set for some sectoral programmes and funds. However, climate targets in most programmes are aspirational, meaning that they are expected results rather than legally-binding criteria included in the planning process. **The MFF climate action target should be increased to a binding 40%**. This requires adjusting all sectoral climate targets accordingly and making them legally-binding in the respective fund specific legislations. See figure 5 for an overview of the different climate mainstreaming scenarios and their implications for the various funds.
2. In addition the 'Rio Marker' methodology used for climate tracking is not sufficiently precise, e.g. the 40% climate action value attributed to the direct payments to European farmers risks that overall climate spending is over-estimated and turns into an ex-post accounting exercise with little real impact. Thus it is necessary to **improve the current climate mainstreaming methodology** to ensure only genuine and direct climate action is accounted for under the climate action target, and to establish a **mechanism to ensure the climate action target of the future MFF is met**[4].

[3] See CAN Europe briefing: 'EU transition financing options', October 2019.

[4] For an elaboration on the climate mainstreaming methodology see as well http://www.caneurope.org/publications/reports-and-briefings/1646-assessment-and-recommendations-on-the-integration-of-climate-action-in-the-eu-budget

Climate mainstreaming scenarios MFF 2021-2027

(EUR billion - 2018 prices) TOTAL MFF: EUR 1,279.4 bn	prorgmme amount	30% climate action		40% climate action		Comparison with climate spending 2014-2020	EC proposal			
							%	amount	share in total climate action	legal base
Horizon Europe	**94.1**	**33**	**35%**	**56**	**60%**	24.7% (35% target Horizon 2020)	**35%**	32.9	**10.3%**	aspiration
ITER (International Thermonuclear Experimental Reactor)	**6.1**	**6**	**100%**				**100%**	6.1	**1.9%**	EC estimate
InvestEU Fund	**14.7**	**4**	**30%**	**9**	**60%**	40% (infrastructure window)	**30%**	4.4	**1.4%**	aspiration (with 50% target for infrastructure window)
Connecting Europe Facility - Transport	**12.8**	**17**	**70%**	**10**	**80%**	52.6%	**60%**	14.7	**4.6%**	aspiration
Connecting Europe Facility - Energy	**8.7**			**9**	**100%**					
Connecting Europe Facility - Digital	**3.0**			**1**	**20%**					
European Regional Development Fund	**226.3**	**113**	**50%**	**158**	**70%**	18.7%	**30%**	67.9	**21.3%**	thematic concentration
Cohesion Fund	**46.7**	**26**	**55%**	**37**	**80%**	28.2%	**37%**	17.3	**5.4%**	EC estimate
European Agricultural Guarantee Fund (EAGF)	**286.2**	**114**	**40%**	**114**	**40%**	14.8%	**40%**	146.0	**45.6%**	aspiration (with 30% for RD)
Europ. Agricultural Fund for Rural Dev. (EAFRD)	**78.8**	**39**	**50%**	**63**	**80%**	59.7%				
European Maritime and Fisheries Fund	**6.1**	**2**	**40%**	**3**	**50%**	15.8%	**30%**	1.8	**0.6%**	aspiration
Environment and Climate Action (LIFE)	**5.5**	**3**	**61%**	**3**	**61%**	46.7%	**61%**	3.3	**1.0%**	aspiration
Neighbourhood, Development, Int. Coop.Instr.	**89.5**	**22**	**25%**	**40**	**45%**	18.5%	**25%**	22.4	**7.0%**	aspiration
Pre-Accession Assistance	**14.5**	**2**	**16%**	**7**	**45%**	13.6%	**16%**	2.3	**0.7%**	aspiration
Share Climate Action: bn EUR; %		**384**	**30%**	**511**	**40%**	19.7%	**25%**	**320**		
Just Transition Fund	**4.8**	**4.8**	**100%**	**5**	**100%**			4.8		
Share Climate Action: bn EUR; %		**389**	**30.4%**	**516**	**40.3%**		25.4%	**325**		

Figure 5: Climate mainstreaming scenarios MFF 2021-2027; CAN Europe;

**CAN Europe calls for a 50% climate and environmental action spending target in the Neighbourhood, Development and International Cooperation Instrument*

3. The Cohesion Policy legislation for the current 2014-2020 cycle requires Member States to earmark a certain percentage of their European Regional Development Funds (ERDF) and Cohesion Funds (CF) for climate action. More developed regions had to reserve 20%, transition regions 15% and less developed regions 12% of their EU funds to spend on the 'shift to the low-carbon economy'. Despite this earmarking the actual allocations for the renewable energy transition remain modest, with a share of 10,3% on average of all infrastructure-relevant EU funding measures, see below figure 6.

Cohesion Policy funding 2014 -2020; planned allocations; data reported for 2018; source: own calculation based on 'Categories of Intervention', https://cohesiondata.ec.europa.eu							
EU funds - financial allocations in relation to climate and energy'							
Planned EU funds 2014-2020	**GHG emissions removals** (environmental measures)	**Renewable Energy** (wind, solar, biomass, hydro, geo & RES integration)	**Energy Efficiency** (housing, public buildings, SMEs and large entreprises)	**Fossil Gas infrastructure** (TEN-E and other)	**Electricity infrastructure** (transmission, distribution, storage, 'smart girds'; TEN-E and other)	**Research & innovation,** technology transfer and cooperation in entreprises focusing on the low-carbon economy	Share on total ERDF/CF: GHG reduction, renewable energy, energy efficiency, electricity infrastructure, research and innovation
AT	€25,326,771	€0	€102,550,607	€0	€0	€12,350,000	**26.2%**
BE	€0	€20,131,102	€85,225,862	€0	€0	€10,429,989	**12.2%**
BG	€62,336,199	€0	€442,582,730	€38,250,000	€0	€14,195,000	**8.9%**
CY	€0	€0	€57,000,000	€0	€0	€0	**9.6%**
CZ	€0	€148,519,176	€1,642,654,397	€0	€195,651,838	€108,834,504	**11.6%**
DE	€126,769,078	€119,139,801	€1,383,974,006	€0	€45,152,495	€243,341,303	**17.8%**
DK	€0	€0	€41,451,729	€0	€0	€11,469,870	**25.6%**
EE	€0	€10,155,884	€277,183,028	€0	€0	€27,957,644	**10.8%**
ES	€0	€899,266,455	€1,670,192,040	€0	€11,885,068	€0	**12.5%**
FI	€0	€6,984,321	€57,320,574	€0	€2,004,863	€58,159,922	**15.7%**
FR	€13,836,498	€375,908,581	€777,497,855	€0	€20,880,497	€117,118,729	**15.6%**
GR	€58,377,518	€137,191,364	€648,006,029	€146,229,732	€230,841,413	€28,298,097	**9.3%**
HR	€0	€95,000,000	€321,810,805	€0	€20,000,000	€40,000,000	**7.0%**
HU	€0	€642,116,565	€1,359,401,885	€0	€0	€0	**11.9%**
IE	€0	€0	€84,500,000	€0	€0	€0	**20.6%**
IT	€17,245,144	€230,778,825	€1,461,995,099	€0	€385,190,560	€0	**9.8%**
LT	€0	€246,207,798	€507,557,280	€70,583,163	€103,394,346	€0	**15.4%**
LU	€0	€1,805,376	€3,610,915	€0	€0	€360,192	**29.7%**
LV	€0	€26,597,247	€365,100,276	€17,727,941	€23,629,687	€0	**11.1%**
MT	€11,900,000	€31,127,364	€26,895,116	€0	€0	€0	**11.6%**
NL	€0	€12,532,607	€56,658,971	€0	€1,881,392	€50,264,470	**23.8%**
PL	€11,849,690	€1,068,213,435	€2,606,859,569	€620,000,000	€733,718,969	€471,082,319	**7.7%**
PT	€17,000,000	€161,000,000	€662,676,924	€0	€0	€255,854,407	**8.0%**
RO	€0	€94,787,234	€1,186,170,213	€46,750,000	€66,372,340	€15,000,000	**7.8%**
SE	€1,450,102	€5,120,358	€87,327,259	€0	€0	€74,108,529	**18.0%**
SI	€0	€41,340,000	€220,213,527	€0	€19,897,800	€53,289,261	**14.4%**
SK	€0	€167,981,020	€698,775,034	€0	€0	€8,358,341	**7.7%**
TC	€88,032,667	€136,301,834	€283,151,472	€150	€32,265,202	€158,209,477	**7.5%**
UK	€0	€357,944,885	€355,192,053	€0	€79,802,949	€266,416,642	**18.1%**
TOTAL	**€434,123,667**	**€5,036,151,232**	**€17,473,535,254**	**€939,540,986**	**€1,972,569,419**	**€2,025,098,696**	**10.3%**

Figure 6: Planned allocation to renewable energy infrastructure, ERDF + CF 2014 - 20202; CAN Europe calculation based on reported 'categories of intervention, https://cohesiondata.ec.europa.eu/

Cohesion Policy funding though is of crucial importance for public infrastructure investments in many EU regions, see below figure 7. The way in which EU funds are spent in those countries largely influences their economic development path.

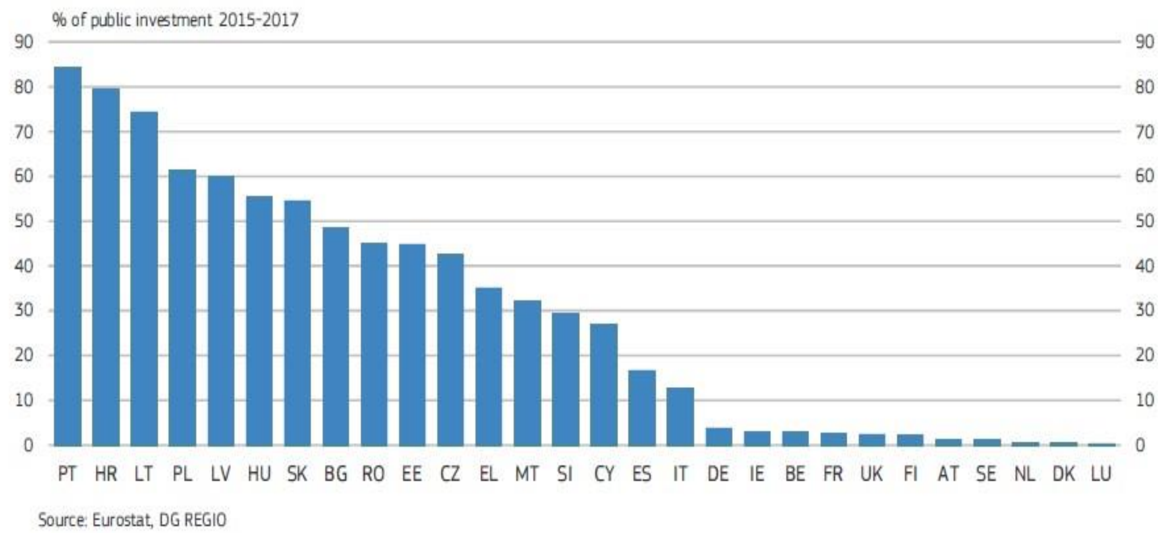

Figure 7: Share of Cohesion Policy funding as % of public infrastructure investments

In order to tap into full the transformational potential of those countries where the impact of Cohesion Policy is the biggest, it is important to **focus Cohesion Policy on the sectoral decarbonisation and the Just Transition**, and so to **increase to 40% the Thematic Concentration for the 'transition to a green, low-carbon Europe'** (Policy Objective 2) for Cohesion Policy 2021-2027.

4. The European Parliament took a very positive stance on the next EU Cohesion Policy, voting for the complete exclusion of all fossil fuels from EU regional development funds. The European Council however aims to reintroduce fossil gas in the scope of EU funds. During the upcoming trialogue negotiations on the Cohesion Policy legislative files Member States and the European Parliament have to guarantee that **no more fossil fuel subsidies will be provided via EU funds** and **a comprehensive exclusion of all support for fossil fuels will be enshrined in the legislation**.
5. And finally, all expenditures stemming from the EU budget, as a general principle, have to be in line with the objectives of the Paris Agreement. For this to happen it is important to **develop an enhanced and comprehensive climate proofing concept** for the entire MFF. The assessment whether an investment is 'climate proof' has to look beyond the currently practiced carbon footprint and Cost-Benefit-Analyses on the project level. Instead a strategic, long-term planning concept should be applied, putting climate-neutrality at the centre of every underlying EU funds spending plan, programme or strategy. That means that only those investments in e.g. energy infrastructure or the transport sector are 'climate proof' when the underlying project list, sectoral development strategy or Operational Programme aims at climate neutrality. All EU funds spending plans, programmes and projects should thus follow the Energy Efficiency First principle and should be embedded in sectoral and regional decarbonisation pathways. In

consequence, **EU funds should visibly increase the ambition of the National Energy and Climate Plans (NECPs),** enabling the financing of measures needed to implement higher climate and energy targets in line with climate-neutrality trajectories.

Faced with the existential threat of devastating climate change impacts, the EU has to prioritise urgent action addressing the climate emergency with the aim of implementing the Paris Agreement's ambition to limit temperature rise to 1.5°C. This will in particular need a substantial increase of climate action in the short term with the aim of reducing greenhouse gas emissions to almost zero and substantially increasing the removal capacity of natural sinks within a few decades.

The EU budget can contribute to addressing the climate urgency. But an EU budget delivering on climate needs political commitment and the accordant legislative decisions have to be made in the coming months. It is the EU's investments between now and 2030 that will make or break the bloc's response to the climate crisis.

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