

BLOG POST May 2nd 2018

The European Commission launches negotiations on the greening of the EU budget

Decoding

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🕒 Reading time: 5 min



Presented as a “modern budget that protects, empowers and defends”, [this proposal](#) kicks off a long process of negotiations between Member States and the European Parliament which will come to a close in

the first quarter of 2019. As it stands, the budget provides for a moderate increase in expenditure towards the protection of the environment; however, the criteria that the Union will use to determine climate-related or “green” expenses remain to be clarified. Of greater concern is the fact that the proposal contains no provision for investments inconsistent with the protection of the environment to be excluded from the remaining 75% of the overall budget amount.

Will the next EU budget rise to the challenges presented by the ecological transition? An analysis by IDDRI, based on [a policy brief](#) published earlier in the week.

The European Commission's proposal for the new Multiannual Financial Framework of the European Union provides for a substantial increase in financial resources allocated to the protection of the environment: in addition to the 60% increase in the allocation towards the Life+ programme, the share of the European budget dedicated to climate action has been raised to 25%, in response to an appeal by 16 European countries of the [Green Growth Group](#) to go beyond the current share of 20%. Even so, this 25% could quickly turn out to be insufficient in view of identified financing needs. A great deal will indeed depend on the leverage effect that European public funding will have on spending by Member States and private investors. Nevertheless, this proposal could leave the more strongly proactive players wanting more, with the European Parliament declaring its wish to increase this share to 30% and France defending the even more ambitious contribution of 40% towards both climate change and the related sphere of biodiversity protection: views that haven't been backed for the moment by the European Commission.

Irrespective of the figure eventually agreed upon, it is important to ensure that the rest of the budget does not finance practices or infrastructure projects that are inconsistent with the ecological transition. The Commission has remained silent on this subject; but it will have to specify which types of projects will be excluded from European support or which will see their European co-funding reduced now and over time. Should gas infrastructure be excluded from budgetary support? What about road infrastructure for electric cars and buses? Or public transport running on fossil fuels? Answering these questions—and thus defining which expenses are inconsistent with the ecological transition and which can be considered “green” expenses—is complex and politically sensitive terrain. But in the coming months, the Commission will have to provide clear answers at the European level, in particular by continuing to work on establishing an EU sustainability taxonomy, a process which was initiated as part of its Action Plan on financing sustainable growth. Or—following the principle of subsidiarity—it must explain how it will ensure that European investments are in line with the deep decarbonisation strategies of Member States as well as their national biodiversity conservation strategies. These clarifications will hopefully be contained in the more detailed proposals of the Commission expected by the end of May.

Another point which requires further clarification by the Commission is how the 25% share will be allocated between the various European funds, be it the Cohesion Fund, the Common Agricultural Policy (CAP) or the funds dedicated to innovation, the development of trans-European infrastructure and cooperation with developing countries. The consideration of factors related to employment and climate change in the Cohesion Policy in addition to the predominant criterion of per capita domestic product is a positive sign in this direction, as is the strengthening of environmental and climate ambition conditionality in the CAP—even though, on this aspect, the proposals put forth last November are still below expectations in view of the challenges ahead. The reference within the document to the implementation of the Sustainable Development Goals and the Paris Climate Agreement in the EU's cooperation policy is also commendable. All these proposals need to be fleshed out with a strong emphasis on the operational dimension.

The Commission did not specify if—and how—it intended to respond more broadly speaking to the social challenges of the ecological and climate transition, even as the theme of the “just transition” has progressively gained ground, with

public authorities being called upon to support regions undergoing the closing or conversion of industrial sites in the coal sector, for instance. Be it through the establishment of a Just Transition Fund (as demanded by the European Parliament), the reform of the Modernisation Fund, or the transformation of the European Globalisation Adjustment Fund into a Globalisation and Climate Adjustment Fund, the coming European budget can be an opportunity to strengthen climate solidarity between European regions.

On the other hand, the Commission was more specific on the increase in the EU's Own Resources, i.e. those that do not come from Member States' contributions and which represent only 10% of the current budget. Its most notable proposal is to allocate a share of 20% of the Emissions Trading System to the EU budget, as well as a national contribution from Member States calculated on the basis of the amount of non-recycled plastic waste they produce, thus paving the way towards the greening of the European fiscal structure. Other approaches such as the introduction of a common energy tax or a carbon tax on Europe's borders—pushed for by France—have been cast aside, but may resurface over the course of the negotiations.

The EU is still a long way from adopting its next budget. The European Commission will clarify the main points unveiled yesterday in the coming month, and it is clear that the negotiations will be gruelling, going by the reactions we are already seeing from Member States to the Commission's proposal. Between those who want to see the Union's budget reduced after Brexit, those who want to maintain the allocation amount to the CAP or those who are defending the Cohesion Policy tooth and nail, there is a real risk that the ecological transition gets left out of the discussions or gets relegated to a lever of political compromise. The European Parliament and France have mobilized to ensure that it nevertheless remains a strong focus of the upcoming budgetary discussions. The reactions of other Member States on this aspect, and of Germany in particular, will be the ones to watch in the coming weeks.