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POLICY BRIEF

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Will the future EU budget be green?

Ten topics to follow in the coming months

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The EU budget is often overlooked for its modest size: around 1% of the gross domestic product (GDP) of the European Union (EU), in other words approximately €150 billion per year, and 2% of the budget of its Member States. However, its role should not be underestimated. This budget is first and foremost an investment budget, and accounts for 14% of public investment in the EU countries, and more than 30% in many countries. Moreover, in recent years the EU has developed new financial instruments aimed at leveraging private financing.

The current EU Multiannual Financial Framework (MFF)—the amounts the EU has been authorised to spend in its different policy areas between 2014 and 2020—will soon expire, and discussions to define its successor have begun; they could continue after the European elections and the nomination of a new Commission in 2019. Although these discussions currently focus on the overall size of the future budget or on how to finance new priorities such as defence and migration policies, they cannot disregard the ecological and especially climate transition. The European Parliament, environmental NGOs and some Member States are already calling for the next MFF to be "greener". In France, for example, the President raised this question, pushing for 40% of the EU budget dedicated to this transition and an end to investments contrary to the Paris Climate Agreement goals.

This *Issue Brief* identifies **10 important topics** to follow, which will determine whether or not the future EU budget becomes a driver of the ecological transition.

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KEY MESSAGES

- What proportion of the next MFF will be dedicated to the ecological transition? The current 20% target for climate spending is deemed insufficient by many actors, who are calling for it to be increased, or even extended to other environmental issues. This implies better defining what can or cannot be considered as a green expenditure in order to avoid any sense of *greenwashing*.
- Concerning the end of support for projects contrary to the EU's long-term environmental objectives, in particular achieving carbon neutrality, the next MFF will be the opportunity to specify what the EU considers to be anti-ecological spending and, on the contrary, what constitutes "green" spending.
- These two sensitive issues should not be addressed only at the overall budget level, but also within each EU fund, beginning with those dedicated to the following five policy areas: cohesion funds for disadvantaged regions in Europe; agriculture; innovation; infrastructure; and cooperation with developing countries.
- Finally, the discussions on the next MFF could be the opportunity: to introduce environmental taxes in order to increase the EU's own resources; to support territories and workers affected by the ecological transition; or even to modify the presentation of the budget to better reflect its contribution to this transition.

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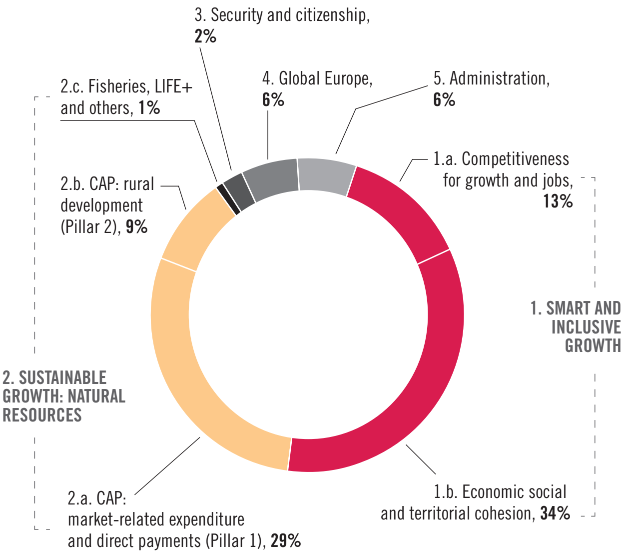
Figure 1. Composition of the MFF 2014-2020 (headings and sub-headings). 2014-2020 total: €960 million.



Source: European commission.

1. THE DUAL CHALLENGE OF ENVIRONMENTAL MAINSTREAMING: INCREASING RESOURCES FOR THE ECOLOGICAL TRANSITION AND REMOVING SUBSIDIES THAT IMPEDE IT

The EU budget is comprised of a multitude of funds and programmes aimed at innovation, trans-European infrastructure (energy, transport, and communication), the development of less-developed regions, agriculture, fisheries, international cooperation, etc. Although these funds already contribute to a certain extent to the ecological transition, they are not specifically dedicated to it, with the exception of the LIFE+ fund for nature protection and climate action, which accounts for 0.3% of the EU budget.

If the EU budget is to become a driver of the ecological transition, in addition to increasing LIFE+ resources, it is essential that the other funds contribute to this transition or, at least, do not impede it. This is the challenge of environmental mainstreaming, which has two dimensions:

- the allocation, within each fund, of resources for "green" investments such as housing renovation, smart grids, renewable energy, collective and innovative mobility, and agroecology;
- the establishment of conditions and criteria to guarantee that investments contrary to long-term environmental objectives are not financed by the EU budget, such as gas infrastructure.

This mainstreaming has made progress in the current 2014-2020 MFF, especially on climate issues. The EU set itself a 20% target for climate spending, which is likely to be narrowly missed. This cross-cutting objective for the whole budget has nevertheless led the structural funds, H2020 (innovation), Connecting Europe (infrastructure) and others, to set their own targets and to measure their climate contributions.

Increasing the proportion of the EU budget allocated to post-2020 climate action (topic 1) will therefore be a first important topic. The amount of public and private investments needed in Europe to deliver the 2030 climate and energy targets has been evaluated at €177 billion per year. Within the framework of the Green Growth Group, 14 environment ministers have called for the 20% target to be a minimum in the next MFF, with the European Parliament pushing for it to be increased to 30%, and European climate NGOs to 40%. Moreover, there are calls to extend this target to biodiversity and natural resource protection, or to adopt additional specific targets on these issues. WWF, for example, proposes to allocate 50% of the EU budget to the environment in general.

Whatever the target adopted, any budget expenditure not allocated to the ecological transition must not be inconsistent with it. Currently, every fund has its own rules and its own climate and/or biodiversity conditions for selecting the projects and actions it supports. The harmonisation and strengthening of these rules should be on the table negotiations. Over and above calls to guarantee all spending is "compatible" with the Paris Agreement or the ecological transition, it may be necessary to ***specify the types of projects that are excluded from any EU support, or that will receive reduced or diminishing over time EU financing (topic 2)***.

Should gas infrastructure be excluded from any budget support? And what about road infrastructure? Or public transport running on fossil fuels? Defining what is meant by "green" spending and what is "anti-ecological" spending is extremely complex and politically sensitive. In particular, it implies having a relatively clear vision of the infrastructure and innovations needed by 2050 to achieve carbon neutrality. It remains to be seen whether the negotiations on the next MFF will provide clear answers at the EU level. Or whether—consistent with subsidiarity—a decision will be made to align EU investments made in each country with the Member States deep decarbonisation long term strategies, or with their biodiversity strategies. It should be noted that in the coming months, the Commission must—in the context of its Action Plan on sustainable finance—produce a classification of sustainable sectors or activities. This taxonomy could serve as a reference for the projects and actions that the future EU budget will either finance or exclude in its different policy areas.

2. TAKING THE ENVIRONMENT INTO ACCOUNT IN THE FIVE KEY EUROPEAN UNION POLICY AREAS

To access structural funds, the Member States (and their regions) need to reach a partnership agreement with the Commission on priority investments and their alignment with the EU's priorities. In this context, a challenge for the next MFF will be ***linking these national investment programmes with the countries' long-term low-carbon strategies and with their national energy and climate plans for 2030 (topic 3).*** Access to structural funds could even become conditional on efforts actually undertaken to decarbonise the economy and to protect natural resources: a form of climate/environment conditionality as there is a condition on the capacity of countries to effectively manage EU financing or to meet their macroeconomic commitments.

Where the Common Agricultural Policy (CAP) is concerned, 30% of direct payments to farmers—pillar 1, which absorbs the majority of the CAP budget—is conditional on environmental requirements, which are relatively weak. In addition, 30% of pillar 2, aimed at rural development and co-financed with the Member States, must be allocated to environmental projects. The challenge for the next MFF, and for the associated CAP reform, is to ***make EU agricultural policy a driver of its transition towards a more sustainable agricultural model, from both a social and an environmental viewpoint (topic 4)***. This is also a necessity for the legitimacy of this EU policy, which takes up almost 40% of the EU budget. Different options are possible, beginning with strengthening the ecological criteria in pillar 1, transferring funds from pillar 1 to pillar 2, or creating a (temporary) fund for the agro-ecological transition, which would replace both pillars.

Support for innovation, through the Horizon 2020 programme, grew during the last MFF, and should continue to grow. One challenge will be to ensure these extra efforts actually contribute to the ecological transition. At present, 35% of the H2020 fund must be dedicated to energy, climate and clean technologies. In addition to increasing this target, another challenge will be to ***ensure the resources dedicated to innovation focus on the sectors in which climate progress is still limited (topic 5)***, such as mobility, energy-intensive industries or agriculture.

Special attention should be given to EU financing for trans-European infrastructure in the context of the Connecting Europe Facility. Given its long-term importance for the ecological transition, ***the EU budget should leverage public and private finance for investing in sustainable infrastructure (topic 6)***, and avoid investment in infrastructure projects that could become stranded assets in the coming decades. In this respect, it should be noted that one of the key recommendations of the High-Level Expert Group on Sustainable Finance concerns the creation of a special (public and private) fund, "Sustainable Infrastructure Europe".

Finally, ***the EU needs to find ways to promote environmental protection beyond its borders (topic 7)*** and, to do so, must ensure coherence between its cooperation policy and its international commitments on climate and biodiversity protection. To achieve this, the 27% target for climate spending in the cooperation policy with developing countries could be increased, and the selection of actions financed could be linked to long-term national strategies established by these countries within the framework of the Paris Climate Agreement.

3. OWN RESOURCES, JUST TRANSITION AND BUDGET PRESENTATION

Several ideas are currently being discussed to increase the EU budget's own resources, in other words those not derived from Member State contributions, and which account for only 10% of the budget today. The options for a European tax include a financial transaction tax or a tax on internet companies. ***Options for greening EU taxation should be also considered (topic 8)***, as they would reconcile the mobilisation of new financial resources with incentives for behavioural change among economic agents, consumers or producers. Once again, several avenues are proposed, but their technical and political feasibility remains to be analysed: a common energy tax, a border adjustment carbon tax, a tax on plastic or on airline tickets, or the allocation of revenue from EU carbon market allowances auctioning, etc.

Since the ecological and climate transition raises some major social challenges, the idea of "just transition" has gradually taken hold to call upon the public authorities to support the closure and restructuring of industrial sites and regions affected by the ecological transition, for example in the coal sector. Whether through the creation of a Just Transition Fund as requested by the European Parliament, the reform of the Modernisation Fund associated with revenue from the sale of carbon allowances, or the transformation of the European

Globalisation Adjustment Fund into a Globalisation and Climate Adjustment Fund, ***the post-2020 MFF could be the opportunity to deliver solutions based on solidarity between the European territories (topic 9)***.

The final challenge relates to the EU budget presentation, considered unclear for citizens by the High-Level Group on Own Resources chaired by Mario Monti. In terms of the environment, for example, Heading 2 of the current MFF, on natural resources, should not be taken at face value: this budget heading overwhelmingly corresponds to the CAP fund. What can be done to better reflect the real contribution of the next MFF to the ecological transition? ***An "Ecological Transition" section including all the funds that actually finance the transition could be created (topic 10)***. Beyond LIFE+, the issue is whether or not to include budget contributions to the transition deriving from funds dedicated to innovation, agriculture and cohesion.

4. A BUDGET WITH NO POLITICAL PROJECT? THE SCHEDULING ISSUE

To conclude, let us return to an anomaly of the discussions on the next MFF: how can the EU budget be defined for the next five or seven years when the political priorities for the next decade are unclear? Indeed, the debate on the future of Europe is far from over and, as yet, the EU has no strategy for 2030, where it had a Europe 2020 strategy when the previous MFF was adopted. Is it realistic to agree in early 2019 on the financial framework before the renewal of the Parliament and the Commission? Can we seriously imagine electing new members of parliament and appointing new commissioners, but not allowing them to decide on the budget framework for the next five or seven years? This is a major scheduling issue. In any case, the debate needs to be opened and structured immediately, even if it would be desirable that the final budget decision involves the next European Parliament and incoming Commission.