POLICY BRIEFING (10/2019)

An EU Budget to address the Climate Emergency

Strengthening the climate performance of the next Multiannual Financial Framework (MFF 2021-2027)

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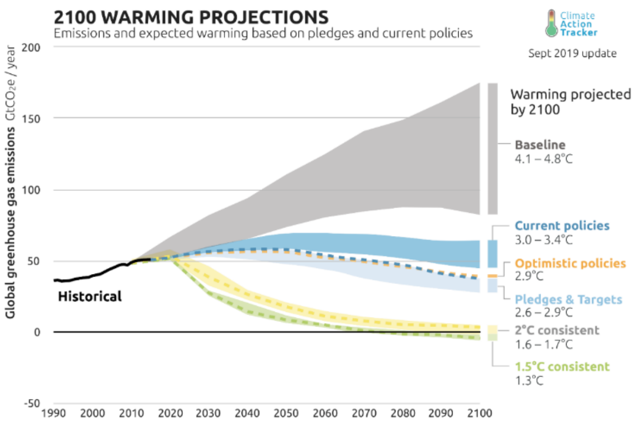
We have a climate emergency. With the current commitments from countries around the world we are heading towards a 3°C hotter world and into uncharted territory of catastrophic change. Faced with this existential threat, the EU, its institutions and all Member States must prioritize urgent action in order to implement the Paris Agreement's goal to limit the increase in temperatures to 1.5°C.



Source: Climate Action Tracker (2019)

All levers have to be mobilized within the next years to change course. This will need a substantial increase of climate action and EU climate spending. The goal is to reduce greenhouse gas emissions to almost zero and, at the same time, substantially increase the global potential for CO_2 removal within three decades.

The EU's next budget cycle, the Multiannual Financial Framework (MFF 2021-2027), plays a critical role in the fight against climate change. It is a key policy tool to support the EU's long-term strategic agenda, including its climate objectives. It translates strategies and policy priorities into budgetary headings, programmes and ceilings, thereby creating a financial framework that guides investments at the regional, national and EU level. The next seven-year budget of € 1,135 billion (or 162bn per year on average) has the potential to unlock investments in all climate-relevant sectors and catalyse the transition towards a net-zero greenhouse gas emission economy.

The MFF 2021-2027 is the last investment cycle to help change course, and a stronger climate performance is urgently needed to reach our 2030 climate targets. Additional investments in climate action of around €180bn to €270bn per year are needed to meet the EU 2030 climate and energy targets. At the same time, all direct and indirect fossil fuel subsidies must be removed. Fossil fuel subsidies in the EU are estimated to range from €39bn to over €200bn per year. The European Parliament in a recent resolution called "for the EU and the Member States to immediately phase out all European and national fossil fuel subsidies", because these are directly contradicting the Paris Agreement's efforts, specifically article 2.1c:

> ***"Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."***

A European Green Deal requires a green EU budget and it is essential that we make use of the **last windows of opportunity to strengthen climate performance of the budget** that can help catalyse climate action funding in Member States and leverage private investments needed. The next MFF must be used to invest in the future, decarbonize our economy, while ensuring a just transition.

The ongoing budget negotiations and the programming processes need to learn the lessons from the past and take into account recommendations for the future. To make the EU budget a green budget is attracting political attention. The upcoming steps of developing ambitious Partnership Agreements (PAs), National Reform Programmes (NRP), National Energy and Climate Plans (NECP), CAP Strategic Plans (CAP-SP), and Operational Programmes (OPs) are essential gateways to get green added value.

Lessons from the past

In general, we observe[1] a **widespread dissatisfaction with the present system** of EU funding for climate, especially in net recipient countries. While there has been some important climate spending, a substantial part of EU money has been spent inefficiently and wastefully, and, in many cases, has even supported environmentally harmful investments.

In many instances, the use of EU funds contradicts EU climate policy objectives, indicating a **lack of proper project indicators, conditionalities and monitoring and control mechanisms.** Corruption is a serious problem in a range of countries.

There is a **significant lack in investment required to meet our national energy and climate plans.** Despite the many funding opportunities, e.g. in clean energy production, transport, or energy efficiency of buildings, the current MFF (2014-2020) is likely to miss the goal of spending at least 20 percent on climate-relevant measures. Due to some serious weaknesses in the tracking and monitoring of actual spending, climate expenditures are even overestimated. So, instead of tapping into the potential of a zero-emission transition, many EU-funded investments still support an energy-intensive, fossil fuels-based and natural resources exploiting economy of the past.

Despite the European Commission's efforts to promote an active involvement of public authorities, trade unions, employers, civil society organisations (CSOs) and other stakeholders, there has been **a lack of effective public participation** and **hence legitimacy of EU spending**. Among other things, inadequate transparency and information as well as insufficient funding of civil society organisations are major obstacles. In some countries, governments are actively obstructing public participation or neglecting their obligations to provide sufficient support as envisaged in the European Code of Conduct on Partnership. Public participation is intended to make spending more effective, increase transparency and support implementation, monitoring and assessment.

[1] The lessons we draw from the past and the policy recommendations we give for the implementation of the next MFF, are based on the insights from our project "A Multiannual Financial Framework (MFF) for the Climate". The project team conducted an EU-wide questionnaire, reviewed scientific literature and institutional reports, monitored the ongoing MFF processes and organised several workshops and webinars with civil society organisations. For more information, please see: https://eeb.org/greenbudget

Recommendations for the Future

There is an urgent need for a **better climate performance of the next MFF (2021-2027).** The overarching objective of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" has to be anchored in all relevant processes, documents, agreements, strategies and plans**. The next MFF is the last investment cycle to change course.** From the lessons from the past we draw the following recommendations for the future: do the good, ban the bad and avoid the ugly!

Do the good!

Scale up climate action and fund the just and zero-emissions transition:
Allocate 40% of the next MFF to climate. The MFF is a lever to close the investment gap of around €180bn to €270bn per year needed. There are great economic and social opportunities in funding a just and zero-emission transition in all eligible sectors, prioritizing zero-carbon transport, renewable energy, energy efficient buildings, sustainable agriculture and consumption.

Strengthen financial & strategic links between MFF, NECPs and European Semester:
The implementation and review process of the National Energy and Climate Plans (NECPs) is closely linked to drafting and programming processes of the MFF. Implementation of Country-specific Recommendations (CSRs) relating to climate and energy in the European Semester context should be enforced via the MFF. This is a gateway to anchor climate action in all processes and improve their strategic alignment.

Insist on 'climate proof' Partnership Agreements and Operational Programmes:
Consistency and vertical coherence of programmes and spending plans with the EU's overarching strategies and climate goals have to be ensured in these documents.

Develop the EU budget in an inclusive manner with enhanced public participation:
CSO engagement is critical for EU spending legitimacy and efficiency. A participatory approach and implementation of the EU's partnership principle requires higher transparency and easy access to information. Dedicated funding is necessary to enable civil society organizations to play a stronger role e.g. in monitoring committees.

Ban the bad!

Blacklist Paris incompatible funding and harmful subsidies:
Blacklisting investments running counter to our climate objectives is key. 'Paris consistency' as a general principle must lead to the general exclusion of fossil fuel investments from EU spending and the phase-out of environmentally harmful subsidies.

Reduce the risks of fraud, corruption, conflict of interest and misuse of funds:
Better monitoring and control of EU funds should be done with close involvement of EU bodies, independent experts and civil society. In particular, the advisory and supervisory role of the European Anti-Fraud Office (OLAF) has to be strengthened with developed capacities and oversight mechanisms to protect the EU budget. Stricter conditionalities for EU funding must be set and national governments must be held responsible. Conditionalities have to be robust, precise, controllable, and in full conformity with the EU's aims. Strengthening and extending the rule-of-law conditionality is a key demand. Any Member State receiving EU funding must join the European Public Prosecutor's Office.

Avoid the ugly!

Upgrade climate mainstreaming and tracking to increase effective climate spending:
The European Commission should further develop its climate tracking methodology to ensure all EU climate spending is genuine and has green added value. Overestimation and 'green-washing' of expenditures due to an unsatisfactory methodology need to be ruled out.

Improve climate proofing to make the entire EU budget Paris compatible:
Climate proofing has to ensure that no spending contradicts our climate objectives. No funds should, for instance, be spent on fossil fuel infrastructure. Conditionalities have to ensure, among other things, compliance with the "energy efficiency first" principle and that specific decarbonisation pathways as strategic basis are at the centre of each EU budget spending plan.

The EU Budget is one budget of many needed to address the climate crisis. National and private spending and a wide range of public and private decisions will also be essential to ensure a transition to a climate neutral world. This requires that all public budgets phase out investments running counter climate objectives and remove all environmentally harmful subsidies, compensating low income households at the same time.

With society fighting for a greener budget across Europe across all levels of government, the EU budget represents an immediate and unique window of opportunity to catalyse climate action.

LITERATURE AND SOURCES

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