CLIMATE CHANCE

Decrypting the European Recovery plan and budget

On 21st July 2020, the European Council reached an intergovernmental agreement expressing a common position on the three pillars of European budgetary policy for the coming years: an economic recovery plan 2021-2023 (Next Generation EU), the Multiannual Financial Framework 2021-2027 (MFF), and the decision on the Union's own resources. A month earlier, 60 prominent members of the Climate Chance Association called on European leaders to put climate and international solidarity at the heart of recovery policies. So, what happened the day after the European Council Conclusions? This article aims to decipher the strengths and weaknesses of this agreement, with regard to climate priorities, the challenges of strengthening local authorities and international solidarity.

Context

The European Commission, in its proposal of 27th May 2020, based on the Conclusions of the European Council of February 2020 (5846/20), proposed a general budget for the European Union of EUR 1,850 billion for the period 2021-2027, of which EUR 1,100 billion is a multi-annual budget and EUR 750 billion is a recovery plan for 2021-2023 alone. The European Council, in its conclusions of 21st July 2020, set a multiannual budget of EUR 1,074.3 billion, lower than in the Commission's initial proposal, but higher than for the period 2014-2020 (EUR 960 billion). It also provides for new instruments to increase the Union's own resources and enable it to finance its borrowings under Next Generation EU (NGEU).

At present, the bulk of the EUR 750 billion of the Recovery Plan is allocated for the Recovery and Resilience Facility, to the tune of EUR 672.5 billion. That is to say, these loans are intended to *"provide large-scale financial support to reforms and investments undertaken by Member States, with the aims of mitigating the economic and social impact of the coronavirus pandemic and of making the EU economies more sustainable, resilient and better prepared for the challenges posed by the green and digital transitions."* The remainder provides additional support, outside the budget, to investment programmes and structural funds, the details of which are set out in the Multiannual Financial Framework (MFF), on the basis of the European Green Deal strategy.

To untangle the meaning of all the announcements in this document, it must be kept in mind that the interests defended by the different European institutions are not all the same: in the Commission it is the interest of the Union; in the European Council, the sovereign interests of the 27 Member States; in Parliament, the interest of the citizens. In this sense, we must distinguish between decisions of an institutional nature, which are a matter of diplomacy between these different entities, and political decisions, which reflect more the colours of the spectrum of opinions within these institutions themselves.

Thus, the conclusions of the European Council, presented on Monday 21st July, merely endorse the common position of the Heads of State and Government on the proposals made by the Commission beforehand. Far from being completed, the legislative process has yet to pass the vote on a regulation by the European Parliament and the Council of the European Union, for adoption in December 2020. The MEPs have already made it known on 23rd July in a resolution adopted by a very large majority that they support the broad outlines of the recovery plan (on which they have only a very small margin) but that they do not intend this to be to the detriment of the Multiannual Financial Framework, which must remain commensurate with the EUR 1,300 billion they proposed at the beginning of the year even though it has been reduced in current euros compared to the previous period as "compensation" for the "frugal" states. In the MFF, the Parliament can oppose it if it cannot amend it. So there is still a long way to go. Before then, the

EU's consultative bodies will formulate opinions at the next plenary sessions of the European Economic and Social Committee (16-17 September) and the Committee of the Regions (15-17 September).

The deciphering proposed here aims to steer the future debates of the MEPs in the direction of the recommendations made by the members of the Climate Chance Association on three themes that bring them together: climate, local authorities and international solidarity.

European Council affirms its climate ambitions

A standardised climate target in all sectors within the recovery plan and the Multiannual Financial Framework

Since the first roadmap proposal for a European Green Deal by the Commission in December 2019, and thenthe proposal for a financing plan for this new strategy formulated in February 2020, it was expected that climate issues would be placed at the heart of the MFF 2021-2027 and, since the health crisis, of the Next Generation EU recovery plan. The objective of carbon neutrality by 2050 as a long-term strategic and financial stimulus must be incorporated into European law at the time of the next vote on the European Climate Law proposed by the Commission to the Parliament last March. In this respect, the European Council, in Article A21 of its Conclusions, set out what can be identified as three golden rules for the climate:

- Mainstreaming: *"Climate action will be mainstreamed in policies and programmes financed under the MFF and NGEU."* This is the idea that climate issues cut across all sectors and should not be approached as an isolated policy issue.
- Specialisation: *"An overall climate target of 30% will apply to the total amount of expenditure from the MFF and NGEU"*. This is the ambition to allocate part of the budget for actions specifically identified as beneficial, as one can guess, to climate change mitigation or adaptation.
- The generalisation: *"As a general principle, all EU expenditure should be consistent with the Paris Agreement objectives"* and "the 'do no harm' principle of the Green Pact for Europe" is further specified (Article 18). This objective is not very binding and makes little sense, as it is simply part of the hierarchy of international standards, with international treaties taking precedence over EU law.

To ensure compliance with these new climate objectives, the Commission is now required to produce an annual report on climate expenditure (Article 18). It is also expected in the same article that a methodology for controlling and monitoring the performance of climate spending will be implemented to ensure that the MFF contributes to the implementation of the Paris Accord. This is a welcome monitoring-evaluation effort, in a context where the climate emergency calls for the conversion of long-term objectives into immediate means whose impact can be measured.

The European Council does not mention this at any point, but the scope and the actual level of constraint of these three principles will ultimately be based on the scope of the "European Green Taxonomy". This EU-wide classification tool will make it possible to identify economic activities considered to be sustainable, "transitional and supportive", or environmentally degrading. The creation of the taxonomy was ratified by a vote of the European Parliament on 19th June, at the end of which the Commission was given a mandate to establish the technical criteria and classification of these activities.

A recovery plan subject to the prevalence of financial criteria over environmental criteria

To receive NGEU funds, States will have to present "recovery and resilience plans", the consistency of which will be assessed by the Commission. The wording of Article A19 gives us a very clear sense of priorities, with criteria that will focus primarily on *"consistency with the country-specific recommendations, as well as strengthening the growth potential, job creation and economic and social resilience of the Member State [which will require] the highest score of the assessment"*. Only then, will these plans be assessed on the basis of *"effective contribution to green and digital transition [which] shall also be a prerequisite for a positive assessment"*.

There is therefore a strong risk that once again budgetary criteria will take precedence over transition targets. Moreover, only the Economic and Financial Committee, *"an advisory body, set up to promote coordination of member states' policies necessary for the functioning of the internal market.*[1]*"*, will be consulted by the Commission for its opinion on whether the deadlines and objectives of the recovery and resilience plans have been met. Naturally, the same applies to the MFF, for which the European Council cannot go against the Treaties, where the functioning of the Single Market remains the backbone of the Union's policy.

It is important to note the additional and not insignificant effort on transport interconnections, and in particular rail, with an increase in the transport budget in the Connecting Europe Facility.

Financial levers for the Union's climate policy

Strengthening the EU-ETS

The proposal to revise the European Emissions Trading Scheme (EU-ETS) and its possible extension to the air and maritime transport sectors is in line with the ambitions set out by Climate Chance in its call to European leaders. On 3rd June 2020, the European Commission published a Roadmap for a legislative initiative to amend the EU-ETS with regard to aviation.

The Climate Chance Observatory had already, in its 2018 Synthesis Report on Non-State Climate Action, shown how under pressure from foreign airlines, the exclusion of international flights to and from the European Economic Area from the scope of the EU-ETS had resulted in a shortfall of about a third of the emissions reductions[2]. The presence of this mention in the European Council Conclusions is therefore remarkable for two reasons:

Firstly, the current context of an aviation sector that has emerged exhausted from the general standstill in the world during the Covid-19 crisis, in the midst of restructuring its activities at the cost of many jobs. But even before that, in view of the decisions taken by the International Civil Aviation Organisation (ICAO) in October 2019 to make Corsia the sole system for regulating emissions from international aviation. A decision aimed in particular at the complete exit of the sector from the EU-ETS, with the likely consequence of an increase in the gross emissions of airlines[3], which, under the Corsia programme based on offsetting, would then no longer have to worry about mitigating their emissions before carbon credits would have been available to offset the increase.

The uncertainties surrounding the programme should therefore lead the Commission and the European legislator, in view of the stakes involved in shifting demand towards carbon-free modes of transport, to be ambitious in strengthening the framework of this sector within the EU-ETS by extending, for example, the coverage of the ETS, which is currently limited to intra-European flights, to extra-European flights to and from the European Economic Area.

The Union's own resources for the environment

Of the new own resources[4] proposed by the 27 Member States, two have an explicitly environmental purpose:

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[1] https://www.consilium.europa.eu/en/council-eu/preparatory-bodies/economic-financial-committee/

[2] https://www.climate-chance.org/wp-content/uploads/2019/03/new-air-transport-efforts-are-still-in-the-state-of-experimentation.pdf

[3] Murphy, A. (2019). Why ICAO and Corsia cannot deliver on climate. A threat to Europe's climate ambition. *Transport & Environment*

[4] Article A29

- **"A new own resource based on non-recycled plastic waste"**. This would be calculated based on the weight of non-recycled plastic packaging waste generated per country, on the basis of 0.8 EUR/kg. It will be introduced on 1st January 2021.
- **"A carbon border adjustment mechanism"**, for which the Commission will have to make a proposal in the first half of 2021, with a view to its introduction by the beginning of 2023 at the latest. This proposal is consistent with the Commission's wishes, and the Climate Chance Association would like to see the revenues turned over to local authorities, in order to ensure transparency and social acceptability of this mechanism to European citizens, which could result in higher costs for imported consumer products. On this crucial point, we note the ambiguity of the final text, which certainly constitutes an opening but also, as pointed out by many observers, does not provide any guarantee on its subsequent implementation and even less on the amount of the sums envisaged.

For the time being and pending further details on the form that this mechanism will take, the European Council only mentions "*the early repayment of NGEU borrowing*[5]" as the planned allocation of the new own resources introduced after 2021.

Local authorities

The European Council rebalances the Commission's Recovery plan proposal in favour of Members States and at the expense of Community programmes

In its proposal of 27th May 2020, the European Commission, as representative of the interests of the Union, had naturally leaned towards allocating a substantial part of the 750 billion EUR budget put on the table in favour of strengthening the investment programmes, structural funds and other devices specially created in the framework of the European Green Deal strategy. These European funds are, for the most part, managed by the regions themselves. Thus, alongside the EUR 560 billion earmarked for the Recovery and Resilience Facility, which provides loans and grants to states, EUR 190 billion was allocated for these EU programmes.

But on 21st July, the European Council, which represents the sovereign interests of the Member States, in turn tipped the financial balance of the Next Generation EU. The amount allocated to the Recovery and Resilience Facility was increased from EUR 500 billion to EUR 672.5 billion, this time with a loan budget(+EUR 112.5 billion compared to the Commission's proposal) greater than grants (+EUR 2.5 billion), as the so-called "frugal" countries wanted.

In this new version, the total amount of the recovery plan is therefore even more controlled by the States, at the expense of the regions and local governments, authorities in charge of allocating these funds in almost all EU countries. In fact, all EU programmes have been strengthened, but much less than the Commission had planned. There has also been the abolition of the EU4Health programme, and of the Solvency Support Instrument, a tool to support business viability that had been proposed by the Commission.

A less targeted stimulus package through Community programmes would reduce the role to be played by local governments, which are the main drivers of these programmes on the ground, particularly as managing authorities of the structural funds[6], and which have proven to be strategically effective in managing the health crisis. This will be all the more true if the MFF remains the same.

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[5] Article A29

[6] In France, from 2014-2020, Regional Councils were the in charge of managing 77% of European Structural and Investment Funds, find out more here (French only) https://www.europe-en-france.gouv.fr/fr/programmes-europeens-2014-2020/qui-gere-les-programmes-europeens

On the other hand, and consequently, the use of the financial package will be more in the hands of sovereign States, themselves constrained by the evaluation criteria of their "recovery and resilience plans" which will have to be presented to the Commission.

The Just Transition Fund has been confirmed, but trimmed

The confirmation of the creation of the Just Transition Fund (JTF) is good news, although we deplore the fact that the European Council has substantially reduced its reinforcement planned by the European Commission in the framework of NGEU from EUR 30 to 10 billion. The allocation of the JTF from the MFF 2021-2027, reinforced by NGEU, should therefore amount to EUR 17.5 billion in total, which can only be favourable to support the least developed regions and those most deeply affected by the imperatives of transition.

Agriculture and rural development

As regards agriculture and rural development, we are expecting above all the change of strategy of the Common Agricultural Policy (CAP), whose negotiations have stumbled over the deep disagreements between COMAGRI and the ENVI Committee. MEPs therefore agreed at the end of June on a two-year transitional period during which the rules in force under the 2014-2020 MFF will be maintained.

So far, the European Council has shown initial positive signals, notably by proposing that 40% of the €386 billion CAP budget be devoted to climate action. The 27 also agreed on a cap on direct payments to large farms under Pillar I, which is essential for local food resilience, which the Climate Chance Association highly defends. Finally, the increase in the Pillar II budget, dedicated to rural development and the ecological transition of farms, is consistent with the ambitions set out in the Commission's sectoral roadmaps "From farm to fork" and "Biodiversity 2030", presented earlier this year.

Solidarity and international cooperation, a major oversight of the EU-27

Weakened cooperation within a better endowed external action

The Climate Chance Association had made this one of its priorities, but it was to be expected that it would be the sector of European policy that would suffer the most from the increase in the sums mobilised for the relaunch of the Union: the budget dedicated to solidarity and cooperation is undergoing a second consecutive cut since the 2007-2013 MFF.

Within a budget for external action[7] which is slightly higher than for the period 2014-2027 (+ EUR 4 billion to EUR 98.419 billion), although much lower than the Commission[8]'s ambitions, development aid funds are cut by EUR 4.7 billion compared with the previous period, to EUR 70.8 trillion. These funds, hitherto scattered among the Union's various financial instruments, will now be brought together in a single instrument, the Neighbourhood Development and International Cooperation Instrument.

This instrument has already been criticised, notably by Platforma, when it was presented in 2018. They critiqued the lack of support for local governments in articulating solidarity and development aid policies. In this respect, the Climate Chance Association regrets that the European Council seems to have neglected the relevance of transnational municipal exchanges for the identification and transmission of the best practices in the framework of local climate change mitigation and adaptation projects.

The European Union should therefore not be satisfied with its decarbonisation efforts alone in order to keep the global warming of the atmosphere below the 2-degree objective set by the Paris

[7] All the Union's external action expenditure is grouped under Heading 6 of the MFF 2021-2027, "Neighbourhood and the World". Its scope extends well beyond development and international solidarity.

[8] In its proposal of 28th May 2020, the Commission proposed an envelope of EUR 118,2 billion, an incredibly significant increase of 30% compared to the MFF 2014-2027.

Agreement and align itself with the SDGs, without coordinating with and supporting those of its neighbours, especially the most vulnerable and those just across the shores of the Mediterranean, throughout the African continent. Relations between our two continents, on both sides of the Mediterranean, cannot be limited to the issues of border security and migration management. A proactive policy of investment in solidarity with countries throughout the African continent is indeed necessary, as well as a strengthening of the cooperation tools available to local governments, such as decentralised cooperation frameworks or transnational initiatives and networks of cities and regions (Covenant of Mayors, Under2 MoU, Climate Alliance, etc.).