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Introduction

In this secretariat information memo the outcomes of the recent European Council Summit are centre staged. In addition, the agenda and outcome of the informal video conference of the Council of the European Union's Environment Configuration are touched upon. The two recently Energy Strategies by the European Commission are also included and the work of the Parliament's Environment Committee as well as the work of the European Economic and Social Committee are summarized.

The European Council and the Council of the European Union

In this paragraph the agreement on the Multi Annual Financial Framework - including the Recovery Package/Next Generation EU - is outlined.

The European Council

It made headlines across the world: EU leaders sealed a deal on a € 1,074 billion long-term budget (MFF) and the EU recovery fund instrument, the so-called Next Generation EU package (NGEU). Council President Charles Michel's [proposal](#) was accepted on Monday morning after marathon talks.

The MFF will cover seven years between 2021 and 2027. The MFF, reinforced by NGEU, will also be the main instrument for implementing the recovery package in response to the socio-economic consequences of the COVID-19 pandemic.

1. The Multi Annual Financial Framework 2021-2027

The approach of the MMF '21-'27 - as negotiated by the Council last weekend - is based on the Commission's proposal. The overall amount for commitments is € 1,074.3 billion. This figure is somewhat lower than the figure proposed by the Commission in February. This should however be seen against the background of the ambitious European recovery effort (Next Generation EU). The MMF '21-'27 includes the following budget items:

- 1) Single Market, Innovation and Digital;
- 2) Cohesion and Values;
- 3) Natural Resources and Environment, including CAP;
- 4) Migration and Border Management;
- 5) Resilience, Security and Defense;
- 6) Neighborhood and the World;
- 7) European Public Administration.



This grouping of expenditure in the designated seven policy clusters is designed to reflect the Union's political priorities and provide for the necessary flexibility in the interest of efficient allocation of resources, the Council argued.

What stands out from the Natural Resources and Environment Cluster?

The mainstreaming of climate across the budget and enhanced integration of environmental objectives gives the Environment Cluster a key role in reaching the ambitious target of at least 30% of EU expenditure on climate objectives (also in this memo: The target on climate action expenditure in the MMF). In practice, a total of roughly € 357 billion is designated for the natural and environment cluster for the period between 2021 and 2027.

NATURAL RESOURCES AND ENVIRONMENT						
(Million euros, 2018 prices)						
2021	2022	2023	2024	2025	2026	2027
55 242	52 214	51 489	50 617	49 719	48 932	48 161
of which : Market related expenditure and direct payments						
38 564	38 115	37 604	36 983	36 373	35 772	35 183

Source: General Secretariat of the Council; Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions

❖ The Common Agricultural Policy

The majority of the MMF's Environment Cluster is designated to financing the EU Common Agricultural Policy (CAP). The CAP (for the period 2021-2027) will continue to be based on the existing two pillars structure¹. Following this news, several experts shared their concern. They argued that the announced € 13 billion for rural development (pillar II) could become meaningless for the environment and climate if the rural development budget is not linked to quantitative environmental and climate targets. Until now this seems not to be ensured. Another topic with regard to the CAP is the possibility to shift money between the two pillars. There are concerns that the flexibility introduced to transfer up to 30% of rural development fund (pillar II) towards direct payments (pillar I) would be used by (too) many Member States, which would mean that money designated for environmental measures will be redirected towards income support for farmers.

¹ **Pillar I** (market measures and direct payments) will provide direct support to farmers and finance market measures. It will contribute, in particular through a new environmental architecture, to a higher level of environmental and climate ambition of the Common Agricultural Policy. Measures in pillar I will, as in the current financing period, be funded entirely by the EU budget. **Pillar II** (Rural Development) will deliver specific climate and environmental public goods, improve the competitiveness of the agriculture and forestry sectors, promote the diversification of economic activity and quality of life and work in rural areas including areas with specific constraints. Measures in pillar II will be co-financed by Member States.



❖ Fisheries and Oceans

The Council conclusion text stated that the Environment Cluster will also support the European Maritime and Fisheries Fund, targeting funding to the Common Fisheries Policy (CFP), the Union's maritime policy and the Union's international commitments in the field of ocean governance, notably in the context of the 2030 Agenda for Sustainable Development.

❖ Life budgets

Furthermore, the Environment Cluster will finance the programme for the environment and climate action, LIFE, which will provide additional support to conservation of biodiversity, including Natura 2000, and the transformation of the Union into a clean, circular, energy efficient, low carbon and climate resilient society. Exact figures were not included in the proposals by Charles Michel, therefore concerns remain that the funds available for meeting for example the goals of the EU Biodiversity Strategy remain to be insufficient.

❖ Just Transition

In order to address social and economic consequences of the objective of reaching EU climate-neutrality by 2050, a Just Transition Mechanism, including a Just Transition Fund, is created. The allocation for the Just Transition Fund for the period 2021-2027 is € 7,500 million. Access to the Just Transition Fund will be limited to 50% of national allocation for Member States that have not yet committed to implement the objective of achieving a climate-neutral EU by 2050, in line with the objectives of the Paris Agreement. The other 50% will be made available upon acceptance of such a commitment.

2. *Next Generation EU*

On the request of the European Council, the European Commission launched '[Europe's moment: Repair and Prepare for the Next Generation](#)', also known as 'Next Generation EU' or 'NGEU'. This integral part of the MMF is especially dedicated to fight the consequences of the COVID-19 pandemic. It was especially this package that caused quite some diplomatic/political turbulence over the past weekend.

❖ *Enabling the Commission to enter the capital market*

The entire budget of Next Generation EU (€ 750 billion) was intended to be borrowed on the capital markets. In its conclusions, the Council agreed that the Commission will be authorized to borrow funds on behalf of the EU (up to the amount of € 750 billion in 2018 prices) on the capital markets. By doing so, heads of state entered uncharted territory.



❖ *The budget*

The overall fund will include € 750 billion, targeted at seven programmes of which the Recovery and Resilience Facility will be the 'big fish', taking € 672 billion from the budget. Other elements of the budget are: A) ReActEU (€ 47,5 billion); B) Horizon Europe (€ 5 billion); C) InvestEU (€ 5,6 billion); D) Rural Development (€ 7,5 billion), E) Just Transition Fund (€ 10 billion); and F) RescEU (€ 1,9 billion).

❖ *Loans and Grants*

While the size of the overall fund was preserved at € 750 billion, the ratio between grants and loans was rebalanced. A total of € 390 billion will be made available as grants, whereas the other € 360 billion will be made available as loans.

❖ *Conditionality and an emergency break*

When a Member State applies for funding, an investment agenda for the years 2021-23 should be submitted. This agenda should have an effective contribution to the green and digital transition. Following the submitted plan, the European Commission will draft a proposal, assessing whether the plan meets the necessary effective contribution targets.

The Commission will then present its findings to the Economic and Fiscal Committee of the Council, and will ask for the Committee's opinion. The Economic and Financial Committee shall strive to reach a consensus. If, exceptionally, one or more Member States consider that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets, they may request the President of the European Council to refer the matter to the next European Council. This final option was often referred to by media as the 'emergency break'.

❖ *Some concluding remarks on individual Programmes of NGEU*

Several individual programmes of the NGEU suffered cuts following the tough negotiations this weekend. Horizon Europe, designed to boost innovation, suffered severe cuts. The same goes for funding for neighbourhood policy and the Solvency Support Instrument². Also the Just Transition Fund was hit quite badly. Whereas the Commission proposed to top up the budget of the fund with an additional € 40 billion in its proposed NGEU, the Council dedicated just € 10 billion. This showed, according to some analysts, how low down the pecking order environmental policies ultimately fell during the talks.

² A € 26 billion fund aimed at supporting economically viable private companies.



3. *MMF and NGEU as a whole: Own Resources, Targets and Next Steps*

❖ *The role of the EU's own resources*

The issue of the EU's own resources was extensively debated. The Council concluded that the ceiling allocated to the Union to cover annual appropriations for payments is fixed at 1.40% of the GNI of all the Member States. Furthermore the Council concluded that the EU will work towards reforming the own resources system and introduce new own resources.

As a first step, a new own resource based on non-recycled plastic waste will be introduced and apply as of 1 January 2021. As a basis for additional own resources, in the first semester of 2021, the Commission will put forward proposals on a carbon border adjustment mechanism and on a digital levy, with a view to their introduction at the latest by 1 January 2023. In the same spirit, the Commission will put forward a proposal on a revised ETS scheme, possibly extending it to aviation and maritime. Finally, the EU will, in the course of the next MFF, work towards the introduction of other own resources, which may include a Financial Transaction Tax.

❖ *The target on climate action expenditure in the MMF*

At least 30% of the total amount of EU's budget and New Generation EU has to be dedicated to achieving climate and environmental goals, in line with the Paris Agreement United Nations Sustainable Development Goals also in this memo: What stands out from the Natural Resources and Environment Cluster). In practice this means that the Council signed up to make climate-related spending consistent with the EU's goal of becoming climate-neutral by 2050 and with the Union's new 2030 climate targets. To conclude, the Council stated that the EU expenditure should also be consistent with the "do no harm" principle of the European Green Deal.

❖ *What's next?*

The Council will seek the consent of the European Parliament in accordance with Article 312(2) TFEU, which provides that the Council shall adopt the MFF regulation after obtaining the consent of the European Parliament. Then, the Council is invited to take up negotiations with the European Parliament with a view to ensuring finalization of work on all legal acts in accordance with the relevant legal basis as a matter of exceptional urgency in order to ensure that the EU can respond to the crisis. For now, the European Parliament will come together during an extra ordinary plenary session on Thursday July 23rd 2020. In a first response, five parties announced that they demand that the 30% target (also in this memo: The target on climate action expenditure in the MMF) will be spent in accordance with the EU's Taxonomy Regulation, which determines which investments are sustainable. The parties also want 10% of the EU money to be used to improve biodiversity.

The Council of the European Union

The [Council of the European Union's Environment Configuration](#) met for the last time under the Croatian Presidency on June 23rd. On the agenda, the contribution of environmental and climate policies to the recovery from the COVID-19 pandemic was center staged. You can find the mainline summary of the meeting [here](#). The Council also officially adopted the conclusions on the possible consequences of COVID-19 on the energy sector.



Somewhat later, on July 13th, EU environment ministers held an informal video conference led by Federal Environment Minister Svenja Schulze as part of Germany's EU Council Presidency. [The ministers called](#) for a Multiannual Financial Framework and a EU recovery programme that should substantially contribute to the environment and climate goals of the EU. The informal video conference is part of [Germany's Council Presidency Agenda](#).

The European Parliament

The Parliament's Environment Committee voted on several proposed changes in legislation and adopted two opinions.

On Tuesday July 7th, the committee voted to include CO₂ emissions from the maritime sector in the EU Emissions Trading System (ETS). This vote followed [a proposal](#) presented by the European Commission to revise the EU system for monitoring, reporting and verifying CO₂ emissions from maritime transport. In addition, MEPs said that market-based emissions reduction policies are not enough, so they also introduced binding requirements for shipping companies to reduce their annual average CO₂ emissions, for all their ships, by at least 40% by 2030. During its next meeting in July (14-16 July), the Committee also introduced [new ambitions on EU rules on measuring emissions from light passenger and commercial cars](#). MEPs want to substantially reduce NO_x emissions to address the serious problems caused by air pollution. In addition to the proposed changes in legislation, the Committee also approved two opinions. One opinion on the single market in relation to sustainability ([Towards a sustainable single market for business and consumers](#)) and one on the how the Green Deal can be financed ([Sustainable Europe Investment Plan - How to finance the EU Green Deal](#)).

The European Commission

In July, the Commission proposed two major new energy strategies: the energy system integration strategy and the hydrogen strategy.

1. The Energy System Integration Strategy

The [EU strategy for energy system integration](#) aims to outline a vision to create a smarter, more integrated and optimised energy system, in which all sectors can fully contribute to decarbonisation.

2. The Hydrogen Strategy

Hydrogen will be an important element of the EU strategy for energy system integration, the Commission announced. In this context, the Commission also adopted a new dedicated [strategy on hydrogen in Europe](#). According to the Commission it will bring together different strands of action, from research and innovation over production and infrastructure to the international dimension.

The new hydrogen strategy will explore the potential of clean hydrogen to help the process of decarbonising the EU economy in a cost effective way, in line with the 2050 climate-neutrality goal as



set out in the European Green Deal. In addition, the strategy should also contribute to the recovery from the economic effects of COVID-19. The strategy will explore actions to support the production and use of clean hydrogen, focusing in particular on the mainstreaming of renewable hydrogen.

After the release of the two energy strategies many organisations submitted their reflections. Quite some stakeholders shared their discontent and noted to be disappointed due to lack of ambition to go for the most sustainable options with hydrogen. A selection of responses is kindly provided by the colleagues of the Belgium FRDO: [ECOS](#), [SolarPower Europe](#), [Power Technology](#), [FoE Europe](#), [European Sting](#), [WWF](#), [WWF](#), [EEB](#), [Clean Energy Wire](#), [Transport & Environment](#), [Wind Europe](#), [Business Green](#), [Forbes](#), [Renews.Biz](#), [Recharge](#), [PV-Tech](#), [CAN Europe](#), [Energy Post](#), [Science Business](#), [PV Magazine](#), [Recharge](#), [H2 View](#), [Environment Journal](#), [Offshore Wind.Biz](#), [META](#), [Modern Diplomacy](#), [EBA](#), [Bioenergy Europe](#), [Energy Storage News](#), [Bellona](#).

European Economic and Social Committee

The EESC had its plenary session mid-July. The Committee debated the priorities of the German Presidency of the EU, with Peter Altmaier, German Federal Minister for Economic Affairs and Energy. Furthermore, debates with Margaritis Schinas, European Commission Vice-President with responsibility for migration and protecting our European way of life and Paolo Gentiloni, European Commissioner for Economic and Monetary Affairs, Taxation and Customs Union took place. There were also several opinions by the EESC that were discussed and agreed upon. [Read More](#)

In the spotlight

The European Court of Auditors (ECA) published an interesting [report on climate change mitigation](#). The report sheds light on where gaps persist in a crisis that could prove to be decisive for the future of our planet and its inhabitants. It looks at the role of audit in the fight against climate change and seeks to identify the consequences of the COVID-19 pandemic for climate governance and climate change mitigation.