Securing a Sustainable Recovery
Eight changes to make Next Gen EU and the MFF truly sustainable

1 July 2020

Summary

The negative economic impact of the pandemic is likely to be unprecedented for a peacetime recession. Overall the EU’s GDP in 2020 is expected to be 7-16% lower than 2019. The availability of financial resources to promote the recovery varies greatly across the Union, suggesting that, in the absence of a common European initiative, the recovery will be greatly uneven. Analysts expect this disparity to cause substantial divergence within the Union, and that this divergence would represent an existential risk to the Union as we know it. To bridge these gaps and save Europe’s unity the Commission has come forward in late May with a renewed Multiannual Financial Framework (“MFF”) for the 2021-2027 period and a new €750bn programme called Next Generation EU. €560bn of Next Generation EU will be spent via the Recovery and Resilience Facility (RRF) for which Member States will need to submit spending plans in order to access such EU support.

Despite its best intentions the Commission’s proposal lacks sufficient environmental safeguards if the EU is to meet its climate targets and emerge from this pandemic with a more sustainable and future-proof economy. Although there is mention in the RRF Regulation of “twin digital and green transitions”, a closer look at the proposal shows how the sustainability features of the recovery are largely optional. This lack of stringent criteria allows for industries and governments to invest in fossil fuels, 20th century technologies and environmental degradation, greatly increasing the risks of missing climate-neutrality in 2050.

The following amendments to the RRF Regulation (€560bn) would ensure a sustainable and resilient recovery:

1. The Commission should ensure that 50% of the funds awarded to Member State Recovery Plans are invested in activities meeting the taxonomy criteria, once these will be ready in January 2022; additionally, the proposal should be amended to introduce an exclusionary list (similar to InvestEU Regulation, Annex V, or Art. 6 in the ERDF/Cohesion Regulation, or Art. 5 in the Just Transition Fund Regulation) in order to avoid the risk of investments going towards projects misaligned with EU objectives. Relating to RRF proposal Art. 4, 15 and 16 (and new Annex IV to incorporate the exclusionary list or cross reference to an approved one).

2. Separate the green and digital transitions so that these are two independent criteria (this would remove the green “or” digital assessment criteria in the RRF Annex II). Investments
must address both topics independently, to ensure that digitalisation can never be achieved at the cost of, or compensating, low investments in the green transition. National plans would need to score an A grade for the green criterion. Relating to RRF proposal Art. 15 and 16 (and Annex II).

3. Make it mandatory for Recovery and Resilience Plans to be compliant with the EU’s target of climate-neutrality by 2050 and both the national energy and climate plans and long-term strategies of the Member States under the Governance Regulation. The plans must also be in line with existing or upcoming 2030 climate legislation (e.g. emission standards for vehicles). Relating to RRF proposal Art. 15.3(c) and Art. 16.3(b).

The Commission also revised its 2018 InvestEU proposal to introduce a new spending window and to align the rest of the text with that of the partial agreement.

The following amendments to InvestEU (€31.2bn) are also needed:

4. The exclusionary list in InvestEU should include internal combustion engines vehicles, and all other carbon-intensive transport activities. Relating to InvestEU proposal Annex V.

5. Only zero-emission mobility should be eligible for any transport-related guarantees in InvestEU’s new “Strategic European Investment Policy Window”. Relating to InvestEU proposal Art. 7.1.e. The eligible activities under Annex II for the other four spending windows should be amended to remove unsustainable biofuels, airports, natural gas, and any carbon-intensive transport activities. Relating to InvestEU proposal Annex II.

Ring fencing resources for sustainability at the source: Green Bonds issuance and the Recovery Instrument (€750bn)

6. Amend Recovery Instrument Council Regulation to include a minimum issuance target of 50% of EU Green Bonds, as of 1 January 2022. Ad interim (1 January - 31 December 2021) the established Green Bonds standard should be adopted. Relating to Recovery Instrument proposal Art. 3.1

Cross cutting amendments to the MFF (€1.103bn):

7. Across the whole MFF, there must be consistency on what constitutes climate spending. Today a project could contribute to the overarching 25% MFF climate target under one programme (e.g. CEF) but not under another (e.g. InvestEU). Since the Climate Taxonomies will be available as of 1 January 2021, it would therefore be appropriate if by ‘climate spending’ all regulations meant “compliant with the Climate change mitigation and adaptation taxonomies”. The notion could be extended to ‘environmentally sustainable’ on 1 January 2022 once the full range of the Taxonomy’s technical screening criteria will be in law.

Increasing EU’s Own Resources:

8. The EU should repay in part the bonds they issue for the purposes of Next Generation EU with new own resources that come from taxing, for example, polluting modes of transport. The potential new revenue from three examples of such taxation is over €50bn a year.
1. Context

1.1 The Economic Impact of the Pandemic

The pandemic and related lockdowns have tested the EU’s economy. The EU’s GDP was 15% lower in spring 2020 than it was during the same period in 2019. The GDP in 2020 is expected to be 7-16% lower than 2019\(^1\). The gravity of the eventual economic impact depends a lot on the recovery (i.e. whether there’s a second wave) and whether governments are strategic in how they support the economy. In Europe, the support to date has largely been at national level and via the European Central Bank’s asset purchasing programmes. The EU made State Aid rules far more lax in order to ensure that Member States that could afford to support their industry were legally allowed to do so. The economic performance of all Member States is not equal though so most state aid was granted by wealthier EU countries to their national industry. This in itself could contribute to an unequal recovery across Europe.

Prompted by Council to do so, the Commission developed a plan to put all of its spending power behind the recovery and to even explore new options to boost the EU budget for the purposes of responding effectively to the pandemic. This resulted in a recovery package totaling €1.85tn being proposed in May 2020\(^2\). €750bn of that amount falls under the title “Next Generation EU”. This is a truly unique instrument as it is the first time that the Commission will make use of its AAA credit rating to borrow money on the financial markets. The exact structure of the bonds the Commission will issue is still to be determined but the proposal states that they should be repaid between 2028 and 2058. The money would be spent during the 2021-2027 budgetary period and most of it would be spent in accordance with the “Recovery and Resilience Plans” of EU Member States. What these plans include and how they will be assessed, as well as the amounts allocated to the various Member States, is defined in the Recovery and Resilience Facility Regulation (further detailed in Section 2 below).

1.2 The EU Response

The EU traditionally has seven-year budgets that are spent via several programmes in accordance with the relevant legislation and funded by MS GNI-based contributions, as well as a few other so-called “own resources”. In May 2018, the Commission proposed a budget for the 2021-2027 period. The Commission also published several legislative proposals that update the EU budget’s spending programmes (e.g. CEF, InvestEU, Horizon, etc.).

In May 2020, in light of the pandemic and its economic impact, the Commission updated its budget proposal for the 2021-2027 period. The Commission also published legislative proposals for new spending programmes and amended proposals for some of the pre-existing programmes. The centrepiece of this new budgetary proposal was Next Generation EU that, if approved, would see the Commission borrowing €750bn on financial markets via several bonds that are repaid between 2028-2058. This new money would be spent via various spending programmes but with most of it being allocated to the Recovery and Resilience Facility. The Commission also proposed to introduce a new policy window in InvestEU, totaling €31.2bn in guarantees. This spending window is called “Strategic European Investment” and the projects eligible for support are defined in the text of the updated InvestEU proposal.

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Considering the urgency of the economic impact of the pandemic, the Commission is pushing for the entire package to be adopted in early autumn 2020.

### 2. Greening the Recovery and Resilience Facility

€560bn will be spent on helping Member States achieve their “Recovery and Resilience Plans”. €310bn is proposed to be spent via grants and €250bn via loans. The criteria that need to be met in order to avail of Recovery and Resilience Facility (RRF) money is detailed in Art. 15 of the proposed RRF Regulation³. Member States will need to propose RRF plans in accordance with the Regulation and submit these between October 2020 - April 2021. Within four months from receiving an RRF plan, the Commission will assess it in accordance with Art. 16 and Annex II of the Regulation⁴. Ultimately, there are seven assessment criteria and the plans will need to score an A for the first two and an A or B for the other five.

#### 2.1 Introducing binding environmental safeguards: Taxonomy reference and an exclusion list

The RRF proposal’s current wording is too vague and offers no legal guarantees that taxpayers’ money will actually be invested in the transition towards a net-zero, sustainable economy. The following amendments are necessary to minimise the possibility of unsustainable investments:

Art 16. 6 (new) - add . new paragraph to the text of Art. 16: “The Commission shall ensure that 50% of the recovery and resilience facility is invested in activities meeting the taxonomy criteria [once these will be ready in January 2022] as per Regulation [X] on the establishment of a framework to facilitate sustainable investment”.

An Environmental and Climate exclusionary list that defines what RRF plans cannot include should be introduced in an annex to the Regulation. This list could either be unique to the RRF Regulation or comprise of the most progressive elements of the existing exclusionary lists in the Commission proposals (i.e. Annex V

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⁴ [https://ec.europa.eu/info/sites/info/files/1_en_annexe_proposition_part1_v15.pdf](https://ec.europa.eu/info/sites/info/files/1_en_annexe_proposition_part1_v15.pdf)
to InvestEU\(^5\), Art. 6 in the ERDF\(^6\), or Art. 5 in the Just Transition Fund\(^7\). Such a compilation would include, for example:

- Investment related to the production, processing, distribution, storage or combustion of fossil fuels (Art. 5 JTF);
- Investment in airport infrastructure except for outermost regions (Art. 6 ERDF);
- Investment in disposal of waste in landfill (Art. 6 ERDF);
- Investment in facilities for the treatment of residual waste (Art. 6 ERDF);
- The decommissioning, operation, adaptation or construction of nuclear power stations (Annex V to InvestEU);
- Investment to achieve the reduction of greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC of the European Parliament and of the Council (Art. 6 ERDF);
- Activities involving live animals for experimental and scientific purposes insofar as compliance with the European Convention for the Protection of Vertebrate Animals used for Experimental and other Scientific Purposes cannot be guaranteed (Annex V to InvestEU).

The above list is still missing many polluting technologies though and should be amended to create a new exclusionary list that’s unique to the RRF Regulation. This would help to ensure that the recovery is coherently “green” across the single market. Such an updated exclusionary list should explicitly include:

- Internal combustion engine vehicles;
- Expansion of aviation capacity including fleets and airports;
- High-emitting maritime vessels;
- Natural gas infrastructure for transport;
- Hydropower, with the exception of investments for the improvement of efficiency of existing installations;
- Crop-based biofuels and bioenergy;
- Investments in incinerators for the treatment of waste;
- Livestock farming, unless organic or extensive (<0.7 LU/ha);
- Logging (forestry and saw mills), unless continuous cover/close to nature;
- Fishing & fish processing, unless performed with vessels under 12 metres in and in a fishery with a small scale fisheries plan and respecting scientifically established Maximum Sustainable Yield;
- Aquaculture aquaculture & processing, unless for extensive seminatural wetlands or close circuit recirculation systems and using fully vegetal feed;

The Commission would then be required to screen national plans in accordance with the exclusionary list when assessing the plans (See Art. 16 and Annex II of the RRF Reg.)

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\(^5\)https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/com_2020_403_5_en_annex_e_proposition_part1_v6.pdf
\(^6\)https://eur-lex.europa.eu/resource.html?uri=cellar:8d2f7140-6375-11e8-ab9c-01aa75ed71a1.0001.02/DOC_1&format=PDF
\(^7\)https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12113-Fast-track-interservice-consultation-on-the-SEIP-including-a-JTM-and-the-JTF-
2.2 Ensuring Recovery and Resilience Plans are green

One criterion is especially relevant to the EU’s environmental targets as it sets out that Member States will need to detail “whether the plan contains measures that effectively contribute to the green and the digital transitions or to addressing the challenges resulting from them” (Art. 15.3(c) of the RRF Proposal). Although promising, the Annex to the Regulation shows that the plan can detail either green or digital or any challenges resulting from them. This optionality allows for green to be traded for digital considerations or an undefined “challenge” from either. Such ambiguity creates a risk that recovery plans could be contrary to the EU’s climate targets. It is imperative that climate spending is better integrated in the text of the Regulation and the Annex. The two transitions should be separate criteria for the purposes of Art. 15.3(c) and 16.3(b). In Annex II, the assessment should deal with these transitions separately with both required to receive an “A” grade for approval.

The following wording should be included in the text of Art. 15.3(C):

The RRF plan should set out the following

“(c) an explanation of how the measures in the plan contribute to the overall objective of a climate-neutral Europe by 2050\(^8\) and how it aligns with both the national energy and climate plan and long-term strategy of the Member State in the context of the Governance Regulation\(^9\)”

The following wording should be included in the text of Art. 16.3(B):

The Commission shall assess

“(b) whether the plan contributes to the overall objective of a climate-neutral Europe by 2050 and how it aligns with the Member State’s national energy and climate plan and long-term strategy in the context of the Governance Regulation and the extent to which the overall investments are compliant with the EU’s framework to facilitate sustainable investment (Taxonomy Regulation)\(^{10}\).”

A country should be required to achieve an A in the above new criterion in order to be eligible for RRF support. See Annex II to the RRF Regulation proposal.

2.3 Ensuring Coherence between Recovery and Resilience Plan, NECPs and Long Term Strategy

As per the text above, it should be made mandatory for Recovery and Resilience Plans to be compliant with the EU’s target of climate-neutrality by 2050 and both the National Energy and Climate Plans (NECP) and Long-Term Strategies (LTS) of Member States. Art, 15 of the Governance Regulation establishes that “By 1 January 2020[...] each Member State shall prepare and submit to the Commission its LTS with a perspective of at least 30 years.” Linking the RRF with such strategies would help ensure alignment of spending with EU and national climate targets.

2.4 National RRF Plans

Member States have a unique opportunity to receive EU support for national spending programmes. A formula is proposed in the Annex of the RRF Regulation that determines which share of the grants go to

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\(^8\) [https://ec.europa.eu/clima/policies/strategies/2050_en](https://ec.europa.eu/clima/policies/strategies/2050_en)


which MSs. The formula is based on unemployment (2015-2019) and GDP per capita. Approximately 40% of the total grant amount (i.e. €124bn) would go to Italy and Spain if the methodology is supported by Parliament and Council. Member States could also apply for loans under the proposal for a value of up to 4.7% of the country’s GNI.

As outlined in the section above, Member States must draft a spending plan in accordance with the RRF Regulation to avail of grants and loans under this new Facility. The plans will be submitted between October 2020 and April 2021. For the purposes of transport, such support must be going towards the development of zero-emission mobility and the required infrastructure to facilitate such vehicles. Member States should include such spending priorities in their RRF plans to make sure that spending is aligned with the EU’s 2050 climate-neutrality target.

National RRF plans should include the following, for example:

- Grant support for zero-emission vehicles and vessels, especially in public & private fleets;
- Co-financing zero-emission charging and green hydrogen infrastructure;
- Utilisation of green hydrogen in the production of deployment of efuels for aviation
- Investment in the zero-emission mobility value chain (e.g. batteries, e-charging points, etc.);
- Improving rail infrastructure and rolling stock on commuter lines;
- Increasing the amount of bike lanes and expanding footpaths;
- Grant support for bikes and e-bikes;
- Support for zero-emission urban mobility (e-buses, trams, metros and the related infrastructure);
- Support for zero-emission freight transport, including grants for purchase of zero-emission vans and trucks.

Member States should coordinate transport investments in order for there to be a consistent recovery across the single market. National RRF plans must not support fossil fuel infrastructure or vehicles as continued investment in such technologies would lead to an economic recovery inconsistent with the EU’s climate targets. Investing in zero-emission transport across Europe will ensure that the EU’s industry is a leader in the field going forward and that EU cities and towns become healthier and safer places to live.

3. InvestEU

3.1 InvestEU and the new “Strategic European Investment” Policy Window
The InvestEU proposal from May 2018 reached a partial agreement in March 2019\(^\text{11}\). The Commission has updated the text of its proposal to be more aligned with the text of that partial agreement. This is bad from a climate perspective as Annex II\(^\text{12}\) of the partial agreement allows for (e.g.) unsustainable biofuels, airports, and gas infrastructure to be supported by InvestEU.

There is also a new financing window introduced to InvestEU in the May 2020 proposal. This new policy window totals €31.2bn in guarantees. This new proposed window is given the name “Strategic European Investment”. Art. 7.1.e to the new InvestEU proposal\(^\text{13}\) outlines the areas eligible for support under this new window. One eligible area is “critical infrastructure, whether physical or virtual, including infrastructure

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\(^\text{13}\)https://ec.europa.eu/info/sites/info/files/com_2020_403_1_en_act_part1_v10.pdf
elements identified as critical in the fields of energy, transport, environment, health...” and another eligible area is “renewable energy technologies, energy storage technologies including batteries, sustainable transport technologies, clean hydrogen and fuel cell applications, decarbonisation technologies for industry, carbon capture and storage, circular economy technologies[...].

Art. 7 of the InvestEU proposal should be amended so that any transport-related support under this new window is devoted to zero-emission transport only. If this is made explicit in the text of the Regulation then the window can truly play a strategic role in the development of future mobility and EU competitiveness in the field. Our analyses\(^\text{14}\) show how transport can and must be decarbonised by 2050 at the very latest, not only to limit global warming but also to ensure Europe’s competitiveness, its energy sovereignty and the health and well-being of its 500 million citizens.

The following amendments to InvestEU are therefore needed:

1. The exclusionary list in Annex V of InvestEU should include internal combustion engines for road transportation and all other carbon-intensive transport technologies;
2. Art. 7 should be amended to prioritize zero-emission mobility under the new “Strategic European Investment Policy Window”;
3. The eligible activities under Annex II for the other four spending windows should be amended to remove unsustainable biofuels, airports, and natural gas.

4. Ring fencing funds: Green Bonds issuance and the Recovery Instrument

To respond to the economic needs caused by the pandemic the EU will enter a new era, one where financial resources are made available today (2021-2027) to Member States via the creation of common debt that will be repaid at a later date (2028-2058). It’s an institutional innovation whose relevance cannot be underestimated. Bond issuance doesn’t just increase the EU’s spending power but it can also be used to ‘green’ EU spending via the issuance of Green Bonds. Green Bonds principles demand that all proceeds are spent according to established/audited green criteria. The EU is creating a EU Green Bond Standard that will be based on the Taxonomy Regulation, that should be operational from 1 January 2022. \textit{Ad interim} (1 January - 31 December 2021) the EU could issue Green Bonds using the established and increasingly popular Green Bond Standard. The issuance of Green Bonds would ensure taxpayers’ money is spent sustainably, would support this growing market and would greatly benefit the EU’s profile as a progressive and forward looking bond issuer.

A minimum threshold of 50% over the total funding requirements of Next Generation EU (€750bn) could be set in the Council Regulation for the Recovery Instrument, in Art. 3.1.

5. MFF’s Climate Target

5.1 The EU Budget’s Climate Target

The Commission has proposed a climate target of 25% for the 2021-2027 budgetary period. This is despite the fact that the EU is falling short of the current 20% target for the 2014-2020 period\(^\text{15}\). In order to play an

\(^{14}\) \url{https://www.transportenvironment.org/publications/how-decarbonise-european-transport-2050}

\(^{15}\) \url{https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=39853}
optimal role in helping achieve the 2050 climate target, there must be harmonised definitions of what spending is considered to contribute to this 25% target. Currently, Rio Markers are used for the Connecting Europe Facility while InvestEU climate spending is tracked “through a Union climate tracking system to be developed by the Commission in cooperation with potential implementing partners, appropriately using the [Taxonomy] criteria”.

It is imperative for climate spending to be consistent across the €1.85bn budget (MFF + Next Generation EU). Inconsistency across programmes dilutes the already conservative 25% target. The entire 25% should be measured against the Taxonomy criteria so that 25% of the EU budget is spent on projects that meet the criteria of the taxonomies for “climate change mitigation” and “climate change adaptation” (to be defined in law before 1 January 2021).16

6. Own Resources

Next Generation EU bonds will need to be repaid. The Commission included potential future own resources in its communication to the May 2020 proposal, including aviation and shipping ETS revenue and a tax on large corporates. Taxing polluting transport modes could generate significant revenue to be fed into the EU budget (and repayment of Next Generation EU bonds) as an own resource.

There is an opportunity to raise revenue from transport for both the EU and national budgets while helping to tackle rising emissions from the sector and help the shift to zero-emission mobility. Taxing climate-intensive transport would encourage smarter transport behaviour and accelerate the uptake of cleaner technologies. The potential revenue from such taxation is just over €50bn per year17. A more extensive list of smart energy taxation (and potential new own resources) can be found in our response to the consultation on the Energy Taxation Directive18.

The EU should include such new own resources as part of the post-2020 EU budget. A euro spent at EU level must be worth more than a euro spent at national level for the EU budget to make sense in the eyes of EU citizens. There is a clear added value for climate action to be taken at EU level and this should be prioritised in the budget. The taxation of transport would do two things: generate revenue for both the EU and national budgets while accelerating the transition to a cleaner transport sector.


a briefing by:
7. Conclusions

The Commission’s May 2020 proposals for the Multiannual Financial Framework and Next Generation EU total €1.85tn, making it the EU’s biggest budget to date. The revolutionary issuance of bonds is unchartered territory for the Commission but is necessary considering the economic impact of the pandemic. A big gap exists though regarding how this spending will be aligned with the EU’s climate targets. If squandered then the budget could go towards technologies and infrastructure that have a short-term economic benefit but are redundant in the future as people and countries move towards zero-emission technologies.

50% of the RRF should be devoted to activities compliant with the EU’s Taxonomy criteria. Furthermore, an exclusion list should be added to the RRF similar to Annex V of Invest EU. Finally, the RRF Regulation should include better green criteria that incorporate the EU’s 2050 target and the long-term strategies of Member States (as per the Governance Regulation). These measures would ensure that spending is going towards resilient and future-proof infrastructure/technologies across Europe. A recovery is only impactful if it’s sustainable and focused on the future rather than propping up the past. The same is true for InvestEU where an ambitious new policy window is proposed. Insofar as this relates to transport, there should be explicit wording on zero-emission mobility so that it is prioritised for the purposes of InvestEU guarantees.

The pandemic’s economic repercussions are still being felt. Now that the political focus has shifted to an economic recovery, it’s imperative that the EU is strategic in where it invests. Prioritising projects that are aligned with our climate objectives will ensure that the investment goes towards industries and employment that are sustainable in the long-term. Every euro spent at EU level must take this into consideration. This would ensure a green recovery from a terrible scar left on the EU’s history.

Further information

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