

Current challenges and opportunities for EU funds to achieve ambitious climate objectives

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To untap the full potential of the EU budget to catalyse the green transformation in Europe via real transition and actual impact, EU funds' spending plans at national and regional level, as well as the economic recovery plans, must be fully Paris-compatible and make different EU policy objectives mutually reinforcing.

This means shifting away from the current status quo of competing priorities and incoherent implementation of climate action towards a positive-sum game abiding by a dynamic rationale. The spending priorities for the annual EU budgets should mirror a holistic (integrated and coordinated) approach to the European project, where different policy goals, such as for example the ones of environmental policy, cohesion policy, and social policy, are aligned.

Additionally, spending plans should follow an incremental approach, with progressively more ambitious objectives and conditions for the allocation of EU funds, with special emphasis for the period post-2027.

For the Multiannual Financial Framework (MFF) to accurately translate EU climate policy objectives into annual action, the discussion on the current challenges and opportunities for EU funds to achieve ambitious climate objectives must consider the following aspects:

- On the one hand, the use of EU funds, in as far as the definition of objectives and the set-up of priorities and conditions are concerned, must be finetuned with state-of-the-art scientific knowledge, both in substance (see for example the 'Fit for 55%' proposals from the WWF, the guidelines for the design of tax incentives to promote green research and development, and the guidelines to reform environmental harmful subsidies) and in methodology.
- For example, while assessing whether the recipients of the Just Transition Fund commit to renewable energy sources and step away from fossil fuels, the whole energy mix in net value needs to be used as reference (i.e., both primary and secondary energy sources must be accounted for).
- On the other hand, the instruments to finance the transition must be geopolitically well-managed, since though EU member states are publicly committed to the European Green Deal, they are divided according to varying constellations over the details of its implementation (maximum regarding the proposed carbon border adjustment mechanism, the future role of nuclear energy, bridging technologies in the transition to net-zero, and the phase-down of carbon-intensive industries).
- This means the management of EU funds must undergo a reform that brings it closer to good governance and avoids the transference of resources from complying members to climate laggards. The principle of accountability needs to be effectively implemented at all levels of political decision, and the principle of partnership must underpin the management of EU money.
- Furthermore, institutional coordination and cooperation between the European Parliament, Council and Commission, on the one side, and financial regulators and supervisors, on the other side, must be improved with a view to the harmonization of

public and private investment efforts, in order to overcome the current financial gap and bring in synergies.

A further aspect to consider relates to the fairness component of sustainable development, which poses both a challenge and an opportunity for EU funds to achieve ambitious climate objectives. The EU needs to mitigate the socio-economic challenges of implementing the European Green Deal if the effort is to succeed. Social justice as a cornerstone of environmental movements is widely mentioned, as environmental harms tend to burden especially the most destitute in the society and political acceptance depends on policy measures being broadly perceived as fair.

However, another side to the discussion stays often insufficiently addressed, namely that also from an effectiveness perspective environmental goals can hardly be achieved where fairness considerations do not take the forefront of the policy design, since emissions have been increasing mainly due to the contribution of the best-well-off in western societies.

This is not to ignore the galloping increase of emissions in developing countries already, with a huge percentage of the world population and relatively high birth rates, but to emphasise the need to address the just transition from the referred double perspective while discussing EU funds, both in their collection (e.g., via environmental tax instruments) and their application (expenditure programmes).

The relevance of these considerations is due to increase further in the near future, due to the rise in inequalities following from the pandemic. Keeping an eye on this aspect when designing and administering EU funds is a pre-condition for the required holistic approach referred above.

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