



Laying the financial foundations for a sustainable recovery from the coronavirus crisis in the EU

Recommendation of the German Council for Sustainable Development concerning the EU's Multiannual Financial Framework and the European coronavirus recovery fund

Berlin, 17 September 2020

Contents

I. Be guided by sustainability

II. Implement the Next Generation EU recovery fund quickly

III. Permanently increase funding for the Multiannual Financial Framework

IV. New own resources for the EU with sustainability potential

I. Be guided by sustainability

When she invested the new commission in 2019, European Commission President Ursula von der Leyen underscored each Commissioner's responsibility to help implement the global Sustainable Development Goals (SDGs). At the same time, the Commission President announced that the economic coordination mechanism used during the "European Semester" would be geared more closely toward the SDGs. The European Commission and European policymaking must now prepare to be measured against the yardstick of these ambitions.

This is particularly true of the financial package for the next seven years which was proposed on 21 July 2020 by the European Council of heads of states and government following on from protracted and difficult negotiations. The package must now be finalised by the Member States and the European Parliament by the end of the year. It consists of the EU Financial Framework for the period from 2021 to 2027 and the EU recovery fund ambitiously entitled "Next Generation EU" (NGEU) for 2021 to 2023. In line with the European Commission's ambitious aims, the processes, procedures and changes in the budget lines of the Multiannual Financial Framework (MFF) and NGEU should be communicated transparently.

II. Implement the Next Generation EU recovery fund quickly

The recovery fund totalling 750 billion euros for the period from 2021 to 2023 is an important and necessary sign of solidarity within the European Union. It is designed to support Member States and policy areas which have been badly affected by the COVID-19 pandemic. For the first time, the EU will take out joint loans to fund the recovery package.

The German Council for Sustainable Development (RNE) welcomes this European solidarity programme and, in particular, supports its focus on climate protection and the Green Deal on one hand and digitalisation on the other. The RNE therefore calls on the European Parliament and the parliaments of the Member States to back the recovery fund.

III. Increase funding for the Multiannual Financial Framework long-term

However, the RNE believes that considerable changes need to be made to the 2021–2027 Multiannual Financial Framework (MFF). In line with the European Parliament’s objectives, the RNE appeals to the Member States to increase funding for the MFF and to ensure that EU finances are aligned with the SDGs and the ambitious aims of the European Commission during their negotiations starting in September 2020. In the view of the RNE, action is also needed on the EU’s multiannual programmes which are founded on the MFF and focus on structural policy, agricultural policy, research policy and international cooperation.

The RNE considers the total multiannual budget proposed by the European Council to be insufficient to strengthen the European Union for its forward-looking global role in the field of international cooperation. The German Council for Sustainable Development regrets that a number of Member States have made their endorsement of the recovery fund conditional on cuts to the MFF. The RNE believes that this financial volume will not be enough to fund the Green Deal with its important steps towards enhancing climate protection, the circular economy and biodiversity and for the EU to make the urgently needed contributions towards a successful sustainability reform in the countries of the Global South, all during the coronavirus pandemic. Furthermore, the RNE takes the view that several focal areas in the MFF are misguided. Among other things, environmentally damaging subsidies should be scaled back considerably, and it is regrettable that the European Parliament’s proposal for a 10% biodiversity quota has not been adopted. Despite a European Parliament resolution to the contrary, the NGEU and the MFF also do not follow the principle of gender mainstreaming. The RNE believes that action is still needed on the introduction of a gender-equitable budget and a gender impact assessment.

It fundamentally welcomes the 30% “climate protection quota” for the MFF and the recovery fund. However, appropriate strict criteria should be applied to ensure that the funding really does result in significant reductions in harmful emissions to make it possible to limit global warming to less than 1.5 °C and that this is not merely a symbolic policy.

The RNE makes the following recommendations concerning the individual focal areas of the MFF and the EU’s associated policy programmes:

Internal market, innovation and digitalisation

The RNE welcomes the increase in funding for digital programmes. By contrast, the funding for the European research programme “Horizon Europe” has only seen a moderate rise compared with the previous 2014–2020 period. Joint European research efforts could deliver important impetus for the necessary transformation towards sustainable business (e.g. achieving climate neutrality by 2050).

Cohesion, resilience and values

This section of the MFF primarily pools the funding for regional development (ERDF) and social cohesion (ESF+), which is boosted by the recovery fund. However, given the major challenge posed by youth unemployment – primarily in southern Europe – the earmarked funding is insufficient. The funds for the Erasmus+ exchange programme and the European Solidarity Corps also fall short of what is needed.

Natural resources and the environment

The budget for the Common Agricultural Policy (CAP) has only seen a moderate reduction in the current proposal by the European Council. However, disproportionately large cuts have been made in the second pillar of the Common Agricultural Policy (EAFRD). This could lead to severe cutbacks to important agri-environmental schemes and sustainable land management. Here, too, the RNE supports a change in the allocation of funding in the forthcoming CAP negotiations. It advocates a shift in favour of the second pillar, which is important both structurally and for environmental policy. In the RNE’s view, it is now more important than ever to be ambitious with the federal framework legislation planned for March/April 2021 to implement the first pillar of the CAP. Doing so will allow Germany to assume a trailblazing role in the preservation of biodiversity in agriculture.

Migration and border management

The German Council for Sustainable Development welcomes the increase in funding for the important policy area of migration as this also offers a political means of tackling the unequal impact on the EU Member States of overcoming the refugee situation. However, it regrets that the European Council is focusing primarily on protecting the EU’s external borders rather than on addressing the factors which cause people to flee from their homeland.

Neighbourhood and the world

This section combines the European Development Fund (EDF) – previously funded separately from the MFF – with other programmes to create the new, integrated Neighbourhood, Development and International Cooperation Instrument (NDICI). Once these changes are taken into account, the level of funding is just about on a par with the MFF for 2014–2020. In real terms, however, the funding for international cooperation has been reduced substantially even though the current situation makes funding for international cohesion and solidarity more important than ever before. Especially given the consequences of the COVID-19 pandemic, the global climate protection challenges and the aggravated state of world politics, the European development cooperation budget seems woefully insufficient. Against the backdrop of a global health crisis and a crisis in international cohesion, the EU should be signalling international solidarity and cohesion. To signal

a commitment to bringing about peace, the funding for civilian crisis prevention and peacebuilding in the new NDICI (previously the “Instrument contributing to Stability and Peace”) should be doubled and on no account reduced. Furthermore, steps must be taken to ensure that the development funding brought together within the NDICI is always used in a way which is compatible with the ODA and paid out to the countries which need it most. Development funding must focus on eliminating poverty and hunger, ensuring food security, safeguarding health and education, and protecting the climate and the environment. Funding must not be awarded subject to governments’ willingness to help discourage migration. What is more, these funds must not be used to equip security apparatuses.

IV. New own resources for the EU with sustainability potential

The European Council’s conclusions also contain deliberations on reforming own resources, i.e. the EU’s income streams, over the next few years. A new source of own resources is set to be introduced as soon as 2021 based on non-recycled plastic waste. This could lead to an important trend towards environmentally friendly product design, the welcome introduction of recycling quotas in the manufacturing of plastic products, or the introduction of a plastic tax. In the course of 2021, the Commission is also expected to present proposals for a digital tax and a carbon border tax, which could generate new revenue for the EU while simultaneously ensuring a level playing field for European companies vis-à-vis competitors from countries with low climate protection standards. Both taxes are expected to be introduced by 2023 at the latest. In addition, the Commission will draft proposals for generating additional own resources in the next MFF for 2028 onwards. One idea is to impose a tax on financial transactions. However, this has been discussed at EU level for a very long time already without any concrete progress to date.

On one hand, strengthening the European Union’s own resources would be an important integration signal for the EU. New own resources in the sphere of sustainability and the climate – and perhaps earmarking these funds for environmental policy action by the EU – could provide further stimulus for a climate-neutral, sustainable Europe. On the other hand, the need for unanimity when new own resources are introduced means there is a risk that individual Member States could block new sustainability and climate instruments due to the link with the own resources system. In principle, the RNE warmly welcomes the reform of the own resources system mooted by the European Council. The RNE therefore calls on both the Federal Government and the German Bundestag to set the pace for – not slow down – the forthcoming next steps. If the European institutions meet with strong resistance from individual Member States, they should also be prepared to introduce the new sustainability and climate instruments without linking them to the EU’s own resources system.

The German Council for Sustainable Development will continue to monitor this topic closely, examine the various possible courses for action, and issue a new recommendation if appropriate.