MAKING THE EU FIT FOR THE FUTURE:

What the German environmental associations want from the European Green Deal

FINANCING

FINANCING THE TRANSITION TO SUSTAINABILITY

The European Commission sees the European Green Deal (EGD), presented in December 2019, as a new growth strategy to help achieve the transition to a resource-efficient, competitive and sustainable economy. In the current Corona crisis, in addition to the already noticeable impacts of the combined climate and biodiversity crisis, the vulnerability of our economic, health and social model is becoming clearer than ever before. The political response must be to make our economic system more resilient. The pathway out of the combined health and economic crisis must remain within the planetary boundaries and must be guided by European and international solidarity. Although the EGD does not yet go far enough in many areas, it offers promising opportunities to help the European economy get back on its feet after the pandemic and at the same time to make the EU more resilient and sustainable.

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The EU Commission had already presented its **investment plan for the European Green Dea**l and the **Just Transition Fund** before the start of the Corona pandemic in January 2020. It outlined how EU budget expenditure earmarked for climate and environmental protection measures could be used to enable appropriate public investment and in addition to provide an incentive for private investment. The Commission aims to use the **Just Transition Mechanism** to make at least €100 billion available over the next seven years to help the EU regions most affected by structural change move towards a low-emission economy and society. The Mechanism will be structured around three pillars. One of these is the **Just Transition Fund**, for which the Heads of State and Government proposed a budget of €17.5 billion at the end of July. Member States will have to submit plans justifying the investment choices of regions that are to be eligible. The plans must be consistent with national energy and climate plans. In addition, a **„transitional arrangement" under the InvestEU investment programme** will provide investment of up to €45 billion, for which the European Council at the end of July allocated €8.4 billion in guarantees. Furthermore, it is hoped that **a loan facility for the public sector at the European Investment Bank, backed by the EU budget**, will mobilise investment. The Heads of State and Government have set aside €360 billion under the **Next Generation EU Recovery and Resilience Facility** – money that Member States can apply for as loans for reconstruction. And in addition, the Heads of State and Government have decided to allocate € 312.5 billion from the Recovery and Resilience Facility to Member States as direct grants. The signatory associations welcome the fact that all EU expenditure is to be consistent with Paris Agreement objectives. The 30 percent climate target is to be met in both the Multi-Annual Financial Framework and the Next Generation EU Recovery and Resilience Facility, and is to be adopted as appropriate targets in the sectoral regulations – in line with the new climate targets for 2030.

- The signatory associations welcome the 30% climate target, but call for a comprehensive revision of the basis for its calculation, particularly with regard to expenditure under the Common Agricultural Policy (CAP). In addition, the associations call for a separate spending target for the protection of biodiversity of 10 percent.
- During its Presidency of the Council, Germany must seek to ensure, in the negotiations on the Recovery Facility, EU Regional Funds legislation and in the negotiations on the Common Agricultural Policy, that:
    - climate relevance is recognised and accepted as a stand-alone criterion separate from digitalisation. This also applies to the climate target for the Recovery Facility.
    - the taxonomy (see below) is used for monitoring compliance with the climate target. This also means that the fulfilment of the taxonomy criteria applies to all measures financed from EU Budget or from the economic stimulus package, provided that the technical screening criteria proposed by the independent technical expert group (TEG) of the EU Commission apply and can be used. For all other measures, at least one „do no harm" check must be carried out in accordance with the principles of the EGD in order to avoid lock-in effects that would jeopardise the 1.5° objective.
- Germany must take a lead in drawing up its Recovery and Resilience Plans and in the Structural Fund programmes and demonstrate how the plans can be used to make an ambitious contribution to socio-ecological transformation.
- When a Member State submits a national recovery and resilience plan (RRP) which is already part of an adopted national programme, compulsory expenditure on climate and biodiversity measures and the application of the „do no harm" principle must apply to the whole package.
- State aid to companies in the context of the economic stimulus packages and recovery plans must be made conditional on them embarking on a verifiable transformation path towards a climate-neutral economy and

exercising due diligence with regard to their environmental and human rights obligations. The most appropriate measurement and reporting tool for this is the EU taxonomy for sustainable and public investment (see below). Its implementation must be completed promptly this year.

- To ensure policy coherence, a negative list must be drawn up for the granting of investment from the entire EU Budget, similar to that proposed by the European Commission for the Just Transition Fund, which excludes use of or support for fossil and nuclear energy and other environmentally harmful subsidies.
- During its Council Presidency, Germany must press the EU Commission to apply and operationalise the „do no harm“ principle to all initiatives by the end of the year. Because a green transition can only succeed if this principle is consistently applied in all policy areas. One means of achieving this is an exclusion list (see above).
- To ensure policy coherence, there must be efficient monitoring of the current climate target of 30 percent. Compliance with European climate targets must be integrated into the European Semester as a firmly established annual governance process. This must also apply to the governance of the national Recovery and Reconstruction Plans (RRPs), National Energy and Climate Plans (NECPs), the ERDF Regional Operational Programmes, the Just Transition Plans and national reform programmes. Furthermore, annual accountability for the implementation of climate mainstreaming must be introduced through a reporting obligation under the inter-institutional agreement. This must include a detailed calculation of the progress being made in the EU Budget towards achieving the climate target. The EU Commission must have the option of intervening if the climate target is not met.
- In order for the climate target of 30 percent and an additional biodiversity target of 10 percent to make an effective contribution to achieving a sustainable economy operating within the planetary boundaries, a realistic and sound calculation of the relevant expenditure under each programme is needed. To this end, an improved methodology must be developed and deployed.
- All funds must act as a catalyst for implementing the EGD and for strengthening European solidarity.
- Particularly in light of the Corona crisis, the transformation of Europe must now be driven forward through targeted economic development in line with the EGD. Additional funds are therefore needed to combat the climate and biodiversity crisis.
- Funding programmes and subsidies harmful to climate and biodiversity must be ended and their counterproductive effects on the objectives of the EGD stopped. The funds thus released must be redirected to support programmes that specifically contribute to climate and biodiversity protection and thus the EGD and the resilience of the EU.
- The Just Transition Fund plays an important role in supporting Europe‘s coal- and carbon-intensive regions in the transformation process and must therefore receive massive support from the EU Member States. However, the Fund must be combined with clear decommissioning criteria.

TAXONOMY REGULATION

In this process, the **Taxonomy Regulation** adopted in June 2020 should be used as a guiding element in the economic stimulus and support programmes of the Federal Government and the European Union to channel public funds in the public interest. The Regulation provides an already agreed, universally applicable and easily transferable starting point for the design and allocation of economic stimulus packages. There is no better foundation for economic activities, one that has been discussed throughout Europe and can be extended internationally: the Regulation has already set standards in many climate- and sustainability-related areas which can serve as guidelines and core frameworks, based on current EU law, on which economic stimulus packages can be built. It contains, for example, an assessment of the climate performance of economic activities in terms of mitigation and adaptation impacts, the thresholds for which have been developed by the Commission‘s independent technical expert group (TEG) and which are - currently in principle but prospectively fully - in line with the scientific evidence.
The associations call for the following:

- A complete taxonomy must cover all climate- and environmentally relevant economic activities and classify their sustainability performance. The EU taxonomy can serve as a standard for linking state aid with the fulfilment of political objectives. The EU Commission must therefore keep to the target timetable for the adoption of the first delegated taxonomy acts by December 2020 in order to underpin EU recovery plans and national economic stimulus programmes.
- The taxonomy must be linked to the „do no harm“ principle enshrined in the EGD. In accordance with this „do no harm“ principle, the signatory associations call for the exclusion of nuclear power, fossil energies including fossil gas, and waste incineration from the „green list“. Bioenergy from wood residues is also not a sustainable investment and therefore does not belong on the „green list“. Coarse woody debris is important for the biodiversity and water storage functions of forests. Furthermore, burning fallen trunks and stumps would increase emissions. The production and use of biofuels and biogas for transport and livestock farming should also be removed from the list because of their harmful effects on climate and biodiversity. The construction of new hydroelectric power plants in the EU should be discouraged through stricter criteria for hydroelectric power as well as by removing subsidies.

SUSTAINABLE FINANCIAL SYSTEM AND NON-FINANCIAL REPORTING

In addition, the EU Commission has announced that it will publish a new **strategy for a sustainable financial system** in the 4th quarter of 2020. Building on the 2018 action plan for financing sustainable growth, it will aim to redirect private capital flows towards green investment. It is expected to include a roadmap with new measures to increase private investment in sustainable projects and activities to support the integration of climate and environmental risks into our financial system. The strategy also aims to create a framework for the European Green Deal Investment Plan and to embed sustainable corporate governance in the private sector.

Furthermore, **a review of the Non-financial Reporting Directive** (NFRD) is on the agenda of the European Commission for the first quarter of 2021. This covers the obligation on companies and financial institutions to provide customers, consumers, investors and civil society organisations with more and better information on their social and environmental performance and impacts. The review of the Directive is to be carried out as part of the strategy to strengthen the foundations for sustainable investment. The signatory associations call for the following:

- The German Council Presidency must press for an ambitious approach to the new strategy for sustainable finance and the Non-Financial Reporting Directive. The Directive must create a database that will make it possible in future to compare the climate and environmental performance of a company with the respective transformation paths of the sector / industry. This will provide a basis enabling corporate financial decision-making to be aligned with a 1.5°C pathway. The aim must be for material sustainability risks to be reported in company financial accounts.
- In order to support and strengthen the transformation agenda, transparent climate reporting, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and the use of the climate scenario analyses in the Non-Financial Reporting Directive are essential.
- The Non-Financial Information Directive must apply to all companies with a significant climate and environmental impact.

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This paper is one of a series of position papers on selected key aspects of the Green Deal. For papers on other topics, please see our homepage www.dnr.de.