

REPAIR AND PREPARE THE NEXT GENERATION



ENERGYCITIES

EU COMMISSION RECOVERY PACKAGE / MFF REVISED PROPOSAL (27/05/20)

ENERGY CITIES BRIEFING MAY 2020

"Big figures can only have a big impact if the real actors of the economy are involved. While the proposals of the European Commission are a step forward in terms of solidarity between Member States, they are also a step backwards in terms of strategic thinking. The Commission's proposals are business as usual, and do not provide the necessary springboard to profoundly enhance the resilience of our economies. We are also concerned about democratic accountability, as the proposals set up a solely bilateral negotiation process between the Commission and Member States, thereby effectively bypassing the European Parliament, getting citizens into the driver seat is not an option, it is a must." Possible quote to use for Board members about the proposals

SHORT ANALYSIS OF THE OVERARCHING PROPOSALS

THE BREAKTHROUGH:
PROPOSING THAT THE EU ITSELF CONTRACTS DEBTS FOR THE MEMBER STATES, AND REPAY THESE DEBTS WITH ADDITIONAL OWN TAXES: ON THE GAFA AND WITH A CARBON TAX ON IMPORTS FROM OUTSIDE EU. SO THE DEBTS WILL NOT BE PAID BY THE RICHEST COUNTRIES, NOR BY THE CITIZENS OF POOR COUNTRIES BENEFITING FROM IT.

QUITE GOOD IN TERMS OF FUNDS AVAILABLE FOR MUNICIPALITIES AND FOR RESILIENCY, NOT GOOD FOR THE GOVERNANCE AND ON HOW AND ON WHAT THE FUNDS WILL BE ALLOCATED (BI-LATERAL NEGOTIATIONS BETWEEN MEMBER STATES AND COMMISSION) BYPASSING PARLIAMENTS AND STAKEHOLDERS. IN GENERAL, STILL TOO MUCH OF BUSINESS AS USUAL (GREEN GROWTH, SINGLE MARKET...)

- The branding of the package “repair and prepare”, is very “adapt” oriented; maybe not enough “resilient” oriented, it should have been branded “regenerate”
- In general, trillions are on the table, ...we can welcome the solidarity between countries it implies, this is a huge step; but of course, financial market are super happy with it, not sure it will be concrete investment in territories where it is needed **as the governance of the Funds is unclear. “Do not harm” principle** should apply (should mean that it is compliant with Climate neutrality objectives, but who will assess that ?)
- **The Recovery Facility (the new money)** which will be more translated into proposals to come on the 28th of May, will be additional grants and loans **negotiated bi-laterally between the Commission and each Member States** !!!where will the transparency be ensured? where stakeholders can have a say? where municipalities can express their needs?
- Together with the **national reform programmes** (Economic governance which decided on austerity measures after the financial crisis) will be key to decide on how the Recovery funds will be allocated together with the NECP: **National Energy and Climate Programmes** are becoming key documents to align investments > so the regulation on Energy and Climate Governance is becoming far more important, and in it, there is an article on multi-level governance that we (Energy Cities) have highly contributed, with the EP rapporteur at that time (Claude Turmes) to shape : **this is a good news and possible improvement needed.**
- **One good news** : The same with the upgrade of the Just Transition Funds > we had advocated for it, the parliament first shaped it, it has been enlarged with the new Commission and now it is multiplied by 5 to reach 32.5 billions and will be for the regions impacted by the Covid; the focus of this instrument is really more about local/regional partnerships and on energy transition
- For the citizen’s participation, and strengthening the EU democracy, they are counting on the **European Citizen’s conference** > we have to ask that it is **based on the EU Covenant of Mayors**, they have to involve all Mayors into it, to have local debates
- Conclusion of the communication : **Europe’s recovery : This is a common good for our shared future.....come on, be bold, but don’t use these important words for empty promises !**



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ABOUT THE PROCESS FOR ADOPTION AND MORE DETAILS ON THE PROPOSALS' CONTENT

**MULTI FINANCIAL
FRAMEWORK (MFF) PROPOSAL
AND RECOVERY FUNDS /
FUTURE EU BUDGET
2021-2027,**

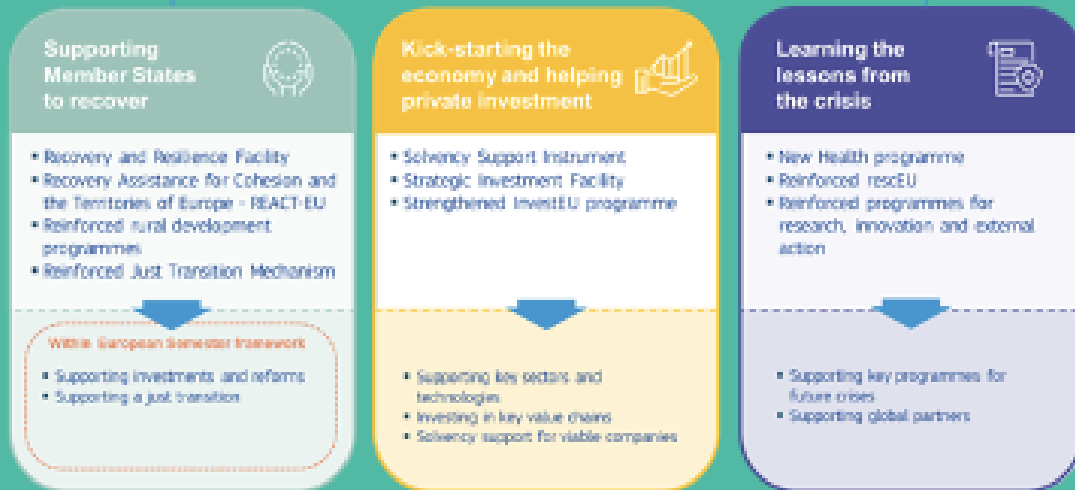
**COMMISSION PROPOSED
TIMELINE FOR THE ADOPTION
OF THE NEXT EU LONG-TERM
BUDGET**

**EXTREMELY AMBITIOUS
TIMELINE CONSIDERING THE
USUALLY TOUGH & SLOW EU
BUDGET NEGOTIATION
PROCESS**



- **May 2020:** Commission proposal for the revised Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision + sectoral legislation
- **By July 2020:** European Council: Political agreement on Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision
- **By summer 2020:** European Parliament's consultation on Own Resources Decision
- **Early autumn 2020:** Adoption of the revised Multiannual Financial Framework 2014-2020 + corresponding sectoral legislation
- **October 2020:** European Council
- **December 2020:** Adoption of the revised Multiannual Financial Framework 2021-2027 (European Parliament's consent)
Adoption of the Own Resources Decision
(Ratification by all Member States in line with their constitutional requirements)
- **January 2021:** Multiannual Financial Framework 2021-2027 implementation starts

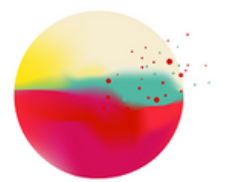
Investing in a green, digital and resilient Europe



Source: European Commission

THE ARCHITECTURE OF THE EU RECOVERY PLAN AND THE EU BUDGET PROPOSALS IN A NUTSHELL, DIVIDED IN THREE AXIS DETAILED FURTHER BELOW IN THIS SYNTHESIS DOCUMENT

Combination of EU budget (1,1 trillion) and recovery money borrowed by Commission on capital markets on behalf of EU (750 EUR million) amounts to a total financing “firepower” of 1,8 trillion in coming years.



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FROM THE MFF (EU BUDGET 2021-2027 REVISED PROPOSALS COMPARED TO MAY 2018) COMMUNICATION

The **twin transitions to a green and digital Europe** remain the defining challenges of this generation. This is reflected throughout the Commission's proposals. **Investing in a large scale renovation wave, in renewable energies and clean hydrogen solutions, clean transport, sustainable food and a smart circular economy has enormous potential to get Europe's economy growing.** Support should be consistent with the Union's climate and environmental objectives. Investing in digital infrastructure and skills will help boost competitiveness and technological sovereignty.

Investing in resilience to future health challenges and strategic autonomy will make the Union better prepared for future crises.

Axis 1: Supporting Member States to recover, repair and emerge stronger from the crisis.



Cohesion policy will play its essential role in supporting a balanced and sustainable recovery through a **new REACT-EU initiative** to tackle the most pressing economic and social needs and adjustments to the **future cohesion programmes** to make them more flexible and fully aligned with recovery priorities. The **European Agricultural Fund for Rural Development** will help farmers and rural areas to deliver the green transition and support investments and reforms essential to Europe's ambitious environmental targets. Finally, a significantly strengthened Just Transition Mechanism will help Member States accelerate the transition to a green economy and in doing so boost their economies.

MAIN INSTRUMENT OF RECOVERY = NEW RECOVERY AND RESILIENCE FACILITY

The Recovery and Resilience Facility will be firmly embedded in the European Semester. Member States will draw up recovery and resilience plans as part of their National Reform Programmes.

These plans will set out the investment and reform priorities and the related investment packages to be financed under the facility, with support to be released in instalments depending on progress made and on the basis of pre-defined benchmarks.

NEW COHESION POLICY INSTRUMENT = REACT-EU INITIATIVE

The Commission is proposing a new **REACT-EU initiative** to increase cohesion support to Member States to make their economies more resilient and sustainable in the crisis repair phase. This will help to bridge the gap between first response measures and longer-term recovery. Through REACT-EU, the Commission is proposing to provide EUR 55 billion of additional cohesion policy funding between now and 2022, EUR 50 billion from Next Generation EU (i.e. temporary money raised by EC from capital markets) in 2021 and 2022 and EUR 5 billion already in 2020 by adapting the current financial framework. The additional funding will be allocated based on the severity of the economic and social impacts of the crisis, including the level of youth unemployment and the relative prosperity of Member States. Support will be available across economic sectors, including tourism and culture and for essential investments in the green and digital transitions, enhancing investment already planned under the future cohesion programmes.

However: no more green objectives imposed on Member States in cohesion programmes

NEXT GENERATION EU INSTRUMENT TO PROVIDE ADDITIONAL FUNDING TO JUST TRANSITION FUND

In particular, the Commission is proposing to provide substantial additional funding of EUR 30 billion for the **Just Transition Fund**, bringing the total to EUR 40 billion. This funding will be used to alleviate the socio-economic impacts of the transition towards climate neutrality in the regions most affected, by for example supporting the re-skilling of workers, helping SMEs to create new economic opportunities, and investing in the clean energy transition and in the circular economy. Increased funding for InvestEU will also mean that the second pillar of the Just Transition Mechanism will be reinforced. The Commission is also making proposals to set up the new public sector loan facility that forms the third pillar of the Just Transition Mechanism. This will be supported by EUR 1.5 billion from the EU budget and EUR 10 billion in lending by the European Investment Bank. Taken together, all three pillars of the Just Transition Mechanism are expected to mobilise up to EUR 150 billion of investments to ensure that no one is left behind during the green transition.

MORE MONEY FOR FARMERS TO IMPLEMENT GREEN DEAL OBJECTIVES

Rural areas will have a vital role to play in delivering the green transition and meeting Europe's ambitious climate and environmental targets. The Commission is proposing to reinforce the budget for the **European Agricultural Fund for Rural Development** by EUR 15 billion to support farmers and rural areas in making the structural changes necessary to implement the European Green Deal, and in particular to support the achievement of the ambitious targets in the new biodiversity and Farm to Fork strategies.

Axis 2: Kickstarting the economy and helping private investment to get moving again



Private investment will be hit hard by the crisis: Commission analysis suggests private sector investment may fall by over EUR 1 trillion in 2020-2021. Meeting the investment needs of the European economy will require urgent action to reverse this trend and put the conditions in place for an investment-led recovery.

This investment is particularly crucial to the success of Europe's green and digital transitions, where the Commission estimates that investment needs amount to at least EUR 1.2 trillion in the same period. Investment in key sectors and technologies, from 5G to artificial intelligence and from clean hydrogen to offshore renewable energy, holds the key to Europe's future.

MORE MONEY FOR INVESTEU PROGRAMME

The Commission is therefore proposing to upgrade **InvestEU** to a level of EUR 15.3 billion for the four policy windows already agreed by the co-legislators. This could trigger investment of over EUR 240 billion. InvestEU will provide crucial support to companies in the recovery phase and ensure a strong focus among private investors on the Union's medium- and long-term policy priorities, in particular the European Green Deal and digitalisation. It will increase the risk-taking capacity of the European Investment Bank Group and National Promotional Banks in support of economic recovery.

By mobilising significant private investment, it will complement the immediate support provided during the crisis repair phase by the Solvency Support Instrument and REACT-EU, and the funding under the future framework from cohesion policy.

A NEW STRATEGIC INVESTMENT FACILITY AS ADDITIONAL WINDOW UNDER INVESTEU

This facility will support projects contributing to building strong and resilient value chains across the EU and enhancing the autonomy of the Union's single market, while maintaining its openness to competition and trade in line with its rules. This will enhance the resilience of the Union economy whilst providing the resources for strategically important companies to prosper and grow within the EU. Member State support for these projects is unlikely to be sufficient and the strong cross-border dimension means that a coordinated European approach is vital to success.

With provisioning of EUR 15 billion from Next Generation EU, the new facility would provide an EU budget guarantee of EUR 31.5 billion and could generate investments of up to EUR 150 billion to incentivise European industrial leadership in strategic sectors and key value chains,

including those crucial to the twin green and digital transitions. The window will ensure that such investments exploit the potential of the single market, with the EU budget guarantee supporting companies. **Link to Important Projects of Common European interest from industrial strategy.**

Axis 3: Learning the lessons of the crisis and addressing Europe's strategic challenges

Horizon Europe will amount to EUR 94.4 billion to increase European support for health and climate-related research and innovation activities. This will contribute to strengthened preparedness to effectively and rapidly respond to emergencies and investment in science-driven solutions, complementing the operational funding provided under the new EU4Health programme and rescEU.

ADDITIONAL FUNDING FOR CONNECTING EUROPE FACILITY

Investing in an up-to-date, high performance transport infrastructure to facilitate cross-border connections, such as Rail Baltica, through an additional EUR 1.5 billion for the Connecting Europe Facility.



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MAKING THESE 3 AXIS HAPPEN THROUGH NEXT GENERATION EU AS TEMPORARY RECOVERY INSTRUMENT

The bulk of the proposed recovery measures will be powered by a new temporary recovery instrument **Next Generation EU** with financial firepower of EUR 750 billion. The instrument will be an exceptional and temporary emergency mechanism. The financing will be enabled by the Own Resources Decision, which will allow the Commission to borrow up to EUR 750 billion on behalf of the Union, for measures over the period 2021-2024.

EUR 500 billion of the funds channeled through Next Generation EU will be used to fund the grant component of the Recovery and Resilience Facility and reinforce other key crisis and recovery programmes. The rest of the funding mobilised via the instrument of EUR 250 billion will be made available to Member States in the form of loans under the Recovery and Resilience Facility.

The funds raised will be repaid after 2027 and by 2058 at the latest. This will help to relieve pressure on Member State budgets at a time when public finances are under severe strain, while ensuring that all obligations arising from this debt issuance will be honoured from future EU budgets.

To facilitate the repayment of the market finance raised and further help reduce the pressure on national budgets, the Commission will propose additional new own resources later in the financial period.

FROM COMMUNICATION ON RECOVERY PLAN "EUROPE'S MOMENT: PREPARE AND REPAIR FOR NEXT GENERATION"

Public investments in the recovery should respect the green oath to "do no harm". The priorities identified in the European Semester, National Energy and Climate Change Plans (NECPs) and Just Transition Plans should guide this investment. The EU sustainable finance taxonomy will guide investment in Europe's recovery to ensure they are in line with our long-term ambitions. This will be supported with a Renewed Sustainable Finance Strategy later this year.



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As well as providing long-term certainty, the green recovery must also help to kick-start Europe's economy quickly and at the local level. The upcoming Renovation Wave will focus on creating jobs in construction, renovation and other labour-intensive industries. Through regulatory and financial support, such as a doubled in size sustainable infrastructure window in InvestEU, the aim will be to at least double the annual renovation rate of existing building stock. Member States will also be able to use funds from the Recovery and Resilience Facility for this purpose, in line with identified priorities under the European Semester or the NECPs. This will help save money on energy bills, provide healthier conditions and reduce energy poverty.

The Connecting Europe Facility, InvestEU and other funds will support the financing of the installation of one million charging points, clean fleet renewals by cities and companies, sustainable transport infrastructure and enable the shift to clean urban mobility. Public investment to relaunch the recovery of the transport sector should come with a commitment from industry to invest in sustainable mobility. Protecting and restoring biodiversity and natural ecosystems is key to boosting our resilience and preventing the emergence and spread of future outbreaks. This redoubles the importance of the recently adopted EU Biodiversity Strategy for 2030 and the upcoming EU Forest Strategy. Under InvestEU a new natural capital and circular economy initiative will mobilise at least €10 billion over the next 10 years.



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