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PROPOSAL

From: Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject: Proposal for a Council Regulation amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027

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Brussels, 22.12.2021
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2021/0429 (APP)

Proposal for a

COUNCIL REGULATION

**amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial
framework for the years 2021 to 2027**

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

1.1 Supporting a socially fair green transition

The ‘Fit for 55’ Package proposed on 14 July 2021 aims at delivering the transformational change needed across our economy, society and industry.

The proposed introduction of a new emissions trading system for buildings and road transport is an important component of the EU action to meet the ambitious climate targets. It should contribute to addressing the lack of emissions reductions to date in these sectors in the most cost-effective way. This introduction will also contribute to new own resources for the Union budget. At the same time, the adjustments required in these sectors are expected to have, in the short term, a direct impact on vulnerable households and micro-enterprises throughout the EU as long as they are reliant on carbon-intensive transport and heating modes. In order to help addressing these social impacts, the Commission has put forward a new initiative: the Social Climate Fund¹.

1.2 Implementing the next generation of own resources for the EU budget.

In line with its commitment in the Roadmap agreed as part of the Interinstitutional Agreement of 16 December 2020², the Commission is proposing amending the Own Resources Decision³ in order to establish the following new own resources for the EU budget:

- a share of the revenues under the Emission Trading System (ETS) Directive⁴, which the Commission has proposed to amend⁵,
- a share of the revenues that will accrue from the Carbon Border Adjustment Mechanism⁶,
- applying a uniform call rate to the share of residual profits of the multinational enterprises, re-allocated to Member States [pursuant to the Directive on implementation of the global agreement on re-allocation of taxing rights].

In its conclusions of 21 July 2020, the European Council stated that the proceeds of the new own resources introduced after 2021 should be used for the repayment of Next Generation EU

¹ Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund, COM(2021)568 final, 14.07.2021.

² Interinstitutional Agreement of 16 December 2020 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap for the introduction of new own resources, OJ L 433I, 22.12.2020, p. 28.

³ COM(2021)570.

⁴ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance within the Union, OJ L 275, 25.10.2003, p. 32-46.

⁵ Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757, COM(2021)551 final, 14.07.2021.

⁶ Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism, COM(2021)564, 14.07.2021

borrowing. It furthermore invited the Commission to “propose a revision of the MFF to this effect in due course”⁷.

In the Interinstitutional Agreement of 16 December 2020, the European Parliament, the Council and the Commission agreed that “the repayment of the principal of such funds to be used for expenditure under the European Union Recovery Instrument (NextGenerationEU) and the related interest due will have to be financed by the general budget of the Union, including by sufficient proceeds from new own resources introduced after 2021.” In addition, the three institutions recognised the importance of the context of the European Union Recovery Instrument and stated that “expenditure from the Union budget related to the repayment of the European Union Recovery Instrument should not lead to an undue reduction in programme expenditure or investment instruments under the MFF”. The Interinstitutional Agreement further states that “it is also desirable to mitigate the increases in the GNI-based own resource for the Member States”.⁸

The new own resources proposed today are envisaged to be introduced by 2023.

1.3 Reasons for and objectives of the proposal

The Commission is proposing a targeted revision of Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020⁹ for the following purposes:

- an increase of the Multiannual Financial Framework ceilings for the proposed Social Climate Fund;
- the introduction of an automatic adjustment of the Multiannual Financial Framework ceilings based on new own resources which would allow for the repayment of NextGenerationEU borrowing.

2. LEGAL ELEMENTS OF THE PROPOSAL

2.1 Increase of the Multiannual Financial Framework expenditure ceilings for the Social Climate Fund.

As part of the ‘Fit for 55’ legislative package, the Commission has proposed the establishment of a Social Climate Fund (‘the Fund’) to help address the social impacts arising from the emissions trading for the sectors of buildings and road transport. The Fund should provide funding to Member States to support measures and investments in energy efficiency, new heating and cooling systems, cleaner mobility as well as temporary direct income support.

The Fund will target vulnerable households, vulnerable transport users and vulnerable micro-enterprises affected by the new ETS for road transport and buildings.

The Fund will be financed under heading 3 ‘Natural Resources and Environment’ of the Multiannual Financial Framework, and in the annual budget nomenclature as part of the ‘Environmental and Climate Action policy’ cluster.

Annex I to Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020¹⁰ should therefore be amended and replaced by the Annex to this proposal.

⁷ Conclusions of the European Council of 21 July 2020, paragraphs A29 and 150.

⁸ Annex II, Preamble, points D and E.

⁹ Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027, OJ L 433 I, 22.12.2020, p. 11–22.

¹⁰ As last modified under the provisions of Council Regulation (EU, Euratom) 2020/2093. The Annex to this proposal is based on the technical adjustment of the multiannual financial framework for 2022 in

2.2 Specific annual adjustment based on new own resources

In order to allow for the repayment of NextGenerationEU borrowing, the Commission proposes a mechanism of automatic adjustment of the Multiannual Financial Framework ceilings.

The adjustment mechanism, proposed as a new article 4a of the Multiannual Financial Framework Regulation, provides for:

- an adjustment of the Multiannual Financial Framework ceiling for sub-heading 2b in commitment appropriations, and of the ceiling for payment appropriations, to be made annually, commensurate to actual revenue stemming from new own resources collected in the previous year, as entered in the provisional accounts of the Commission in accordance with article 245(3) of the Financial Regulation;
- the mechanism for the annual adjustment will be implemented from 2024 based on the envisaged introduction of the new own resources by 1 January 2023;
- the amount of the adjustment will be capped at an annual amount of EUR 15 billion in 2018 prices. For the year 2027, the amount of the adjustment will be reduced by an amount of EUR 8 billion (in 2018 prices).
- the adjustment will be communicated by the Commission to the European Parliament and the Council shortly after the adoption of the provisional accounts and thus by mid-April.

An amount of EUR 15 billion corresponds to a linear repayment profile from the Union budget for non-repayable support based on the Commission's issuance planning for NextGenerationEU, including the maturity structure.

The fixed amount of EUR 8 billion which will be deducted in the calculation of the adjustment in the year 2027 corresponds to the annual average expenditure for the Social Climate Fund from 2026, when revenues from road transport and building ETS will start, to 2032.

This specific annual adjustment of the payment ceiling will not be taken into account for the calculation of the maximum amounts for the annual adjustment in the payment ceiling under the Single Margin Instrument referred to in article 11(3) of the MFF Regulation.

The adjustment mechanism based on new own resources will be accompanied by a draft amending budget to increase, as appropriate, expenditure budget line(s) in the budget of the year in which the mechanism is applied.

3. BUDGETARY IMPACT

The budgetary impact of the specific annual adjustment based on new own resources will take effect as of 2024. The amount will be equivalent to the actual amount of revenue stemming from new own resources collected in the previous year, as entered in the provisional accounts, and will be capped at an annual amount of EUR 15 billion in 2018 prices. In the year 2027, the calculation of the adjustment will feature a reduction of a fixed amount of EUR 8 billion (2018 prices).

accordance with Article 4 of Council Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027, COM(2021)365 of 7 June 2021.

Regarding the Social Climate Fund, the Commission proposes to increase the ceiling in commitment appropriations of heading 3 ‘Natural Resources and Environment’ by an amount of EUR 2 176 million in 2025, EUR 9 132 million in 2026 and EUR 8 786 million in 2027, in 2018 prices.

The proposed increases in the ceiling in commitments will result in an increase of payment needs. The Commission thus proposes to revise the payment ceiling for the years 2025, 2026 and 2027 by EUR 2 176 million, EUR 9 132 million and EUR 8 786 million respectively, in 2018 prices.

Proposal for a

COUNCIL REGULATION

amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 312 thereof,

Having regard to the Treaty establishing the European Atomic Energy Community, and in particular Article 106a thereof,

Having regard to the proposal from the European Commission,

Having regard to the consent of the European Parliament¹¹,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with a special legislative procedure,

Whereas:

- (1) In the framework of the Interinstitutional Agreement of 16 December 2020 between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources¹², the European Parliament, the Council and the Commission committed to a roadmap for the introduction of new own resources over the duration of the multiannual financial framework for the years 2021 to 2027 and to working towards introducing sufficient new own resources with a view to covering an amount corresponding to the expected expenditure related to the repayment of NextGenerationEU.
- (2) It is appropriate to lay down a mechanism allowing for repayments of the financing costs of NextGenerationEU during the period of the multiannual financial framework for the years from 2024 to 2027 with amounts equivalent to the new own resources collected in accordance with Council Decision (EU, Euratom) 2020/2053¹³ (the ‘Own Resources Decision’) and entered into the provisional accounts, without reducing expenditure for Union programmes.

¹¹ OJ C [...], [...], p. [...].

¹² OJ L 433I, 22.12.2020, p. 28.

¹³ Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom (OJ L 424, 15.12.2020, p. 1)

- (3) The introduction of EU emissions trading for the buildings and road transport sectors, as set out in Directive 2003/87/EC of the European Parliament and of the Council¹⁴, may give rise to short term social impacts. To address this challenge, Regulation (EU) [XXX] final of the European Parliament and of the Council established¹⁵ a Social Climate Fund, to be financed by the general budget of the Union under the multiannual financial framework. The ceiling for commitment appropriations of heading 3, ‘Natural Resources and Environment’, and the ceiling for payment appropriations should therefore be adapted for the years 2025, 2026 and 2027.
- (4) Regulation (EU, Euratom) 2020/2093 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EU, Euratom) 2020/2093 is amended as follows:

- (1) in Article 4, paragraph 4 is replaced by the following:
- ‘4. Without prejudice to Articles 4a, 6 and 7, no further technical adjustments shall be made in respect of the year concerned, either during the year or as *ex post* corrections during subsequent years.’;
- (2) the following Article 4a is inserted:

‘Article 4a

Specific annual adjustment based on new own resources

1. Starting in 2024, after the submission of the provisional accounts of the year n-1 in accordance with Article 245(3) of the Financial Regulation, an upward adjustment to the expenditure ceiling for commitment appropriations of sub-heading 2b and to the ceiling for payment appropriations for the current year shall be made.
2. This annual adjustment shall be of the following amounts:
 - (a) for the years 2024, 2025 and 2026, an amount equivalent to the revenue which has been entered in the provisional accounts referred to in paragraph 1 stemming from the resources set out in Article 2(1), points (e), (f) and (g), of the Own Resources Decision.
 - (b) for the year 2027, an amount equivalent to the revenue which has been entered in the provisional accounts referred to in paragraph 1 stemming from the resources set out in Article 2(1), points (e), (f) and (g), of the Own Resources Decision, reduced by a fixed amount of EUR 8 000 million (in 2018 prices).

The annual adjustments referred to in the first subparagraph shall not exceed EUR 15 000 million (in 2018 prices) per year for the years 2024 to 2027.

3. The Commission shall communicate the results of the annual adjustments referred to in paragraph 2 to the European Parliament and to the Council within 15 days of

¹⁴ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

¹⁵ OJ [...], [...], p. [...].

submission of the provisional accounts for year n-1 in accordance with Article 245(3) of the Financial Regulation.’;

- (3) in Article 11(3), the second subparagraph is replaced by the following:
‘Amounts corresponding to the upward adjustments referred to in Article 4a(1) and in the second subparagraph of Article 5(2) shall be in addition to the maximum amounts referred to in the first subparagraph of this paragraph.’;
- (4) Annex I is replaced by the text in the Annex to this Regulation.

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President