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WORKING PAPER

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From: Presidency
To: Working Party on Structural Measures
Subject: REACT-EU Regulation: Presidency issues paper concerning climate target

In view of the Structural Measures Working Party on 28 September, delegations will find attached an issues paper prepared by the Presidency setting out options concerning climate target in REACT-EU Regulation.

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Transposition of EUCO Conclusions – Climate Targets for Cohesion Policy

European Leaders agreed in the EUCO Conclusions of July 2020 on a new overall climate target for the MFF and NGEU of 30% that needs to be reflected in appropriate targets in sectoral legislation.

Paragraph A21 of the EUCO Conclusions reads as follows:

Climate action will be mainstreamed in policies and programmes financed under the MFF and NGEU. An overall climate target of 30% will apply to the total amount of expenditure from the MFF and NGEU and be reflected in appropriate targets in sectoral legislation. They shall comply with the objective of EU climate neutrality by 2050 and contribute to achieving the Union's new 2030 climate targets, which will be updated by the end of the year. As a general principle, all EU expenditure should be consistent with Paris Agreement objectives.

The reference to “*appropriate targets in sectoral legislation*” also encompasses Cohesion Policy which has to contribute significantly to achieving the overall 30% goal.

The initial Commission proposal on the MFF provided for an overall MFF climate target of 25%. On the basis of this target, the Commission suggested targets of 30% for the ERDF and 37% for the Cohesion Fund in the sectoral regulation. Recital 14 of the Commission proposal on the ERDF/Cohesion Fund of May 2018 reads as follows:

*Reflecting the importance of tackling climate change in line with the Union's commitments to implement the Paris Agreement and the United Nations Sustainable Development Goals, the Funds will contribute to mainstream climate actions and to the achievement of an **overall target of 25 % of the EU budget** expenditure supporting climate objectives. Operations under the **ERDF are expected to contribute 30 %** of the overall financial envelope of the ERDF to climate objectives. Operations under the **Cohesion Fund are expected to contribute 37%** of the overall financial envelope of the Cohesion Fund to climate objectives.¹*

The Commission proposal on REACT-EU did not include a climate target (under a 25% overall MFF climate target scenario). However, it underlined that REACT-EU contributes to the green transition (as part of the so-called twin transition). The Council partial mandate of 22 July has confirmed this contribution:

Article 92b (1) REACT-EU

*The additional resources referred to in Article 92a (‘the additional resources’) shall [...] provide assistance for fostering crisis repair in the context of the COVID-19 pandemic **and preparing a green, digital and resilient recovery of the economy (REACT-EU).***

¹ The European Parliament position foresees a 35% climate target for ERDF and a 40% target for the Cohesion Fund.

See also Art. 92b (8) REACT-EU

*For the ERDF, the additional resources **shall primarily be used** to support investment in products and services for health services, to provide support in the form of working capital or investment support to SMEs, **investments contributing to the transition towards a digital and green economy**.*

Given that the transition towards a green economy is one of the primary funding objectives of REACT-EU, it will certainly contribute to the MFF climate target. At the same time, the flexibility provided by REACT-EU is high and there are no thematic concentration requirements in the Regulation. While some Member States might invest a big share of the additional resources into the twin transition others might give priority to investments in SME support, short-time work or health products and services.

Being aware of these differences, the Commission has considered nevertheless that an overall (= average) EU climate target of 25% for REACT-EU is in reach (see MFF-Fiche n° 84). In SMWP meeting of 18 September a couple of delegations have welcomed a corresponding Recital in the REACT-EU Regulation, but the Presidency's drafting suggestion on an expected climate target of 25% for REACT-EU also faced resistance from a significant number of Member States.

In order to find a way forward on how Cohesion Policy can contribute to the increase of the MFF climate target from 25% to 30% (including also NGEU), the Presidency invites delegations to consider the following options while taking into account possible trade-offs between the climate targets of ERDF and REACT-EU in the Recitals. The climate target for the Cohesion Fund would remain in any of the three Options at 37%.

	<u>Climate target ERDF</u> ("expected to contribute")	<u>Climate target REACT-EU*</u> ("expected to contribute")
Option A	30%	25%
Option B	32%	10%
Option C	35%	No figure

** Recital on REACT-EU may also include the following sentence: "In line with the flexibility provided by this Regulation, Member States' contributions may differ reflecting national priorities". In case of Option C, the recital may also include a reference to a contribution to the overall climate objectives without specifying any percentage.*

Question to delegations: For which of the above-mentioned options (A, B and C) you have the highest and the lowest level of flexibility?