Issues Note

Leaders' dialogue on the EU Budget and the Green Transition: Do We Need a European Sovereignty Fund?

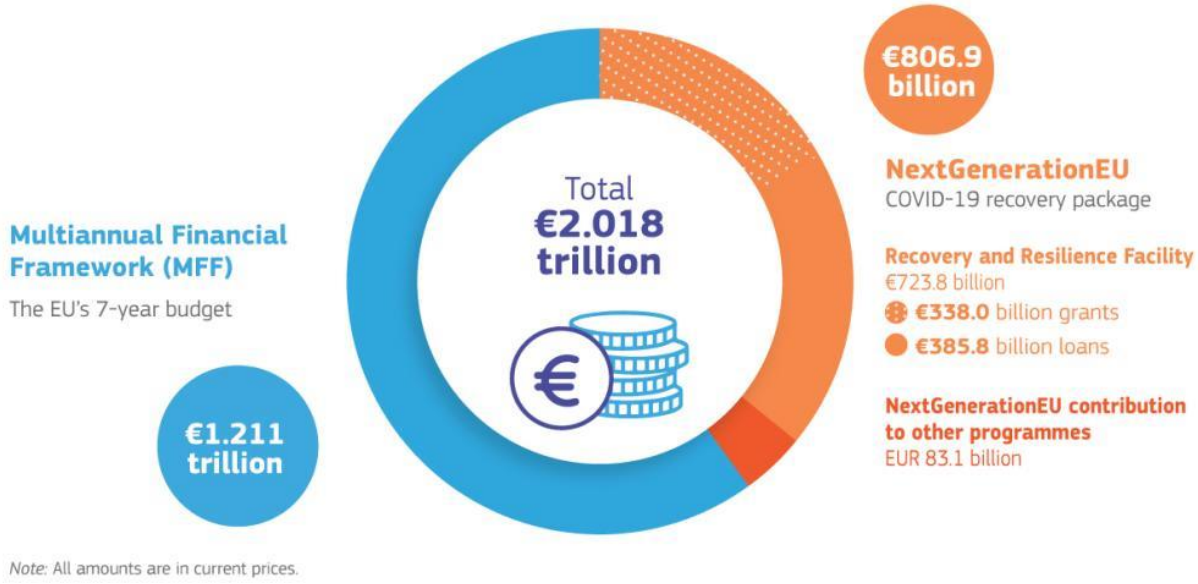
The **EU's 2021-2027 long-term budget, the multiannual financial framework (MFF),** together with the NextGenerationEU recovery instrument, amounts to €2.018 trillion in current prices. This unprecedented response helps to repair the damage caused by the Covid-19 pandemic and aid the transition towards a digital and green Europe. The centrepiece of NextGenerationEU is the Recovery and Resilience Facility (RRF) – an instrument for providing grants and loans to support reforms and investments in the EU Member States. To underscore its commitment to its **climate and environmental goals, the EU has set quantitative targets on the shares of its 2021-2027 MFF and NextGenerationEU funding**. In particular, the EU has committed to dedicating at least 30% of its funds to climate-relevant expenditure.

Part of the **Green Deal Industrial Plan for the Net-Zero Age** is to speed up investment and financing for clean-tech production in Europe. As a **mid-term structural answer for the investment needs**, the European Commission announced it would also look to set up the **European Sovereignty Fund** to preserve a European edge on critical and emerging technologies, including net-zero. To address critical dependencies, its design shall allow for direct, fast and flexible budgetary support to well-identified projects of interest for EU sovereignty across any sector of the EU´s industrial spectrum. Hence, it shall play an important role in preserving the integrity of the Single Market by collectivising investments via multi-country Important Projects of Common European Interest (IPCEI). In this sense, the European Sovereignty Fund would be designed to manage possible distortions stemming from various amounts of Member States´ firepower for state aid. Yet, current opinions in Member States vary: along traditional lines, the more frugal Nordics view extra money for a new fund with more scepticism than more vocal proponents such as France. A possible compromise might be a redirection of current funds, potentially from the €807 billion strong NextGenerationEU. The Commission is currently working with all Member States in the design of the European Sovereignty Fund to ensure that it addresses respective needs, and it is expected to be proposed on 20 June, along with the review of the MFF 2021-2027.

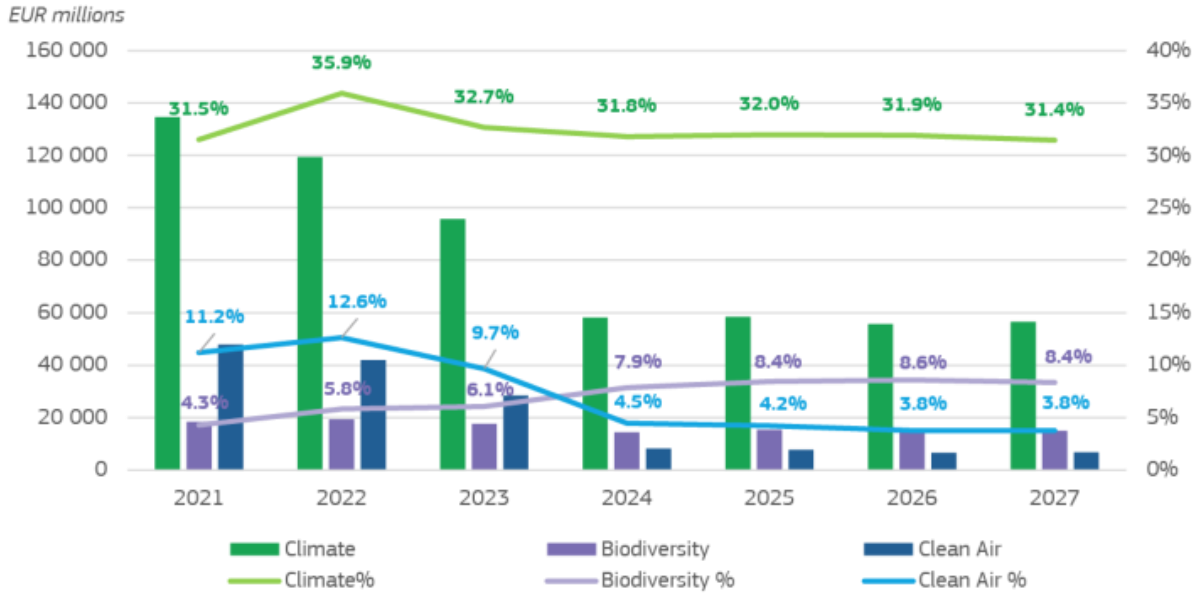
Questions for discussion

1. *Do we need a European Sovereignty Fund? What are other possible sources of funding for the green transition?*
2. *What ambition can the EU budget reasonably fulfil? How can and should it be changed to help achieve the comprehensive policy aims?*

A modernised EU long-term budget, powered by NextGenerationEU



MFF Green contribution in 2021 to 2027 (million EUR)



Source: European Commission