German Environment Agency

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Climate and environmental targeting of the new EU budget for 2028–2034 overestimated – Revision of climate and environmental coefficients in the Performance Regulation necessary

Summary

The system of Intervention Fields (IF) and climate and environment coefficients set out in Annex I of the Performance Regulation is central to aligning the Multiannual Financial Framework (MFF) 2028–2034 and the National and Regional Partnership Plans (NRPP) with climate and environmental objectives. Due to the planned discontinuation of the previous thematic concentration of funding on climate and biodiversity objectives, this system would become significantly more relevant as a steering instrument in the period 2028–2034. It is therefore important that it is designed in such a way that it can be effective.

With the help of the climate and environmental coefficients, budget shares defined in terms of content via the IF are then classified according to whether they contribute not at all (coefficient = 0%), more than marginally (coefficient = 40%), or completely (coefficient = 100%) to the climate and environmental goals of the European Union. The Commission's proposal for the Performance Regulation assigns numerous IF coefficients of 40% or 100% that are not (sufficiently) justified from a technical point of view and lead to a systematic overestimation of climate and environmental contributions. In order to assess the extent of the overestimation, scenario calculations were carried out for selected IFs with obviously unjustified climate and environmental contributions. The results show that, based on only seven IFs or groups of thematically related IFs (out of a total of 543 IFs), around 38% of the NRPP climate and environmental quota is already covered, even though no corresponding positive environmental impact has been proven. If the calculations are extended to include five additional groups of thematically related IFs, around half of the quota is already fulfilled. Area-based income support for farmers (IF2) plays a key role due to its high budget volume.

In order to avoid greenwashing of the EU budget and to ensure that the instrument can be used to steer the achievement of European climate and environmental goals, an evidence-based and transparent revision of the areas of Intervention Fields and the coefficients is necessary in the further negotiation process. Initial approaches and proposals are being developed for this purpose.

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1 Starting point and objective

With the proposals of the European Commission for the MFF 2028–2034 as well as for the NRPP, the share of EU expenditure allocated to climate and environmental objectives is to be further increased, according to the Commission. A spending target of 35% for climate and environmental objectives within the MFF and 43% within the NRPP has been proposed. Alongside the "Do No Significant Harm" principle (DNSH), this quota represents one of the central instruments for the ecological orientation of the future EU budget (see link).

The quota is based on a standardized calculation mechanism in which expenditures contribute to the achievement of targets using climate and environmental coefficients. The contribution is calculated as the product of the budget volume and the coefficient. The quota is used for budgetary aggregation, planning and implementation of funding, and to demonstrate the climate and environmental ambitions of the EU budget. Its significance and impact depend crucially on the validity of the underlying coefficients.

The coefficient method has been the subject of criticism for years. The European Court of Auditors (ECA), scientific analyses, and environmental organizations have repeatedly pointed out that the allocation of climate and environmental coefficients to individual IFs is in many cases unjustified and not supported by reliable evidence of effectiveness. As a result, the positive climate and environmental impacts of individual areas are overestimated and there is a risk of greenwashing, which calls into question the effectiveness of the spending target. Against this background, this paper aims to provide, for the first time, a quantitative estimate of the potential overestimation of the climate and environmental quota, with a focus on the NRPP 2028–2034.

2 Scenario method

In order to quantify the overestimation of positive climate and environmental effects of the NRPP budget at EU level, (groups of) IFs with obviously unjustified allocation of climate and environmental coefficients of 40% or 100%, their contribution to the NRPP climate and environmental quota of 43% was calculated within the framework of a scenario. The IFs considered were determined on the basis of a systematic analysis of Annex I of the Performance Regulation[1].

The data is based on publications by the European Commission on the MFF 2028-2034. In addition to the criterion of potential overestimation, the assumed substantial volume of future expenditure was decisive for the selection of the IFs. For the three IFs from the CAP, these assumptions could be derived relatively precisely from publications of the European Commission: for IF 2 (Targeted support to farmers income), expenditure of €189.5 billion is assumed; for IF 5 (Support to farmers in sectors in need, ruminants' livestock sectors), €14.5 billion; and for IF 10 (Support to farmers in mountain areas), €9.9 billion. For all IFs from Cohesion Policy included in the calculations with potential for overestimation, it was assumed - due to the lack of published budget figures - that, given their expected high relevance in future funding (see Annex 1), each would account for 5% (= €22.65 billion) of the total future NRPP budget[2].

[1] The reasons and references for the selection of IFs considered here are presented in Annex 1.

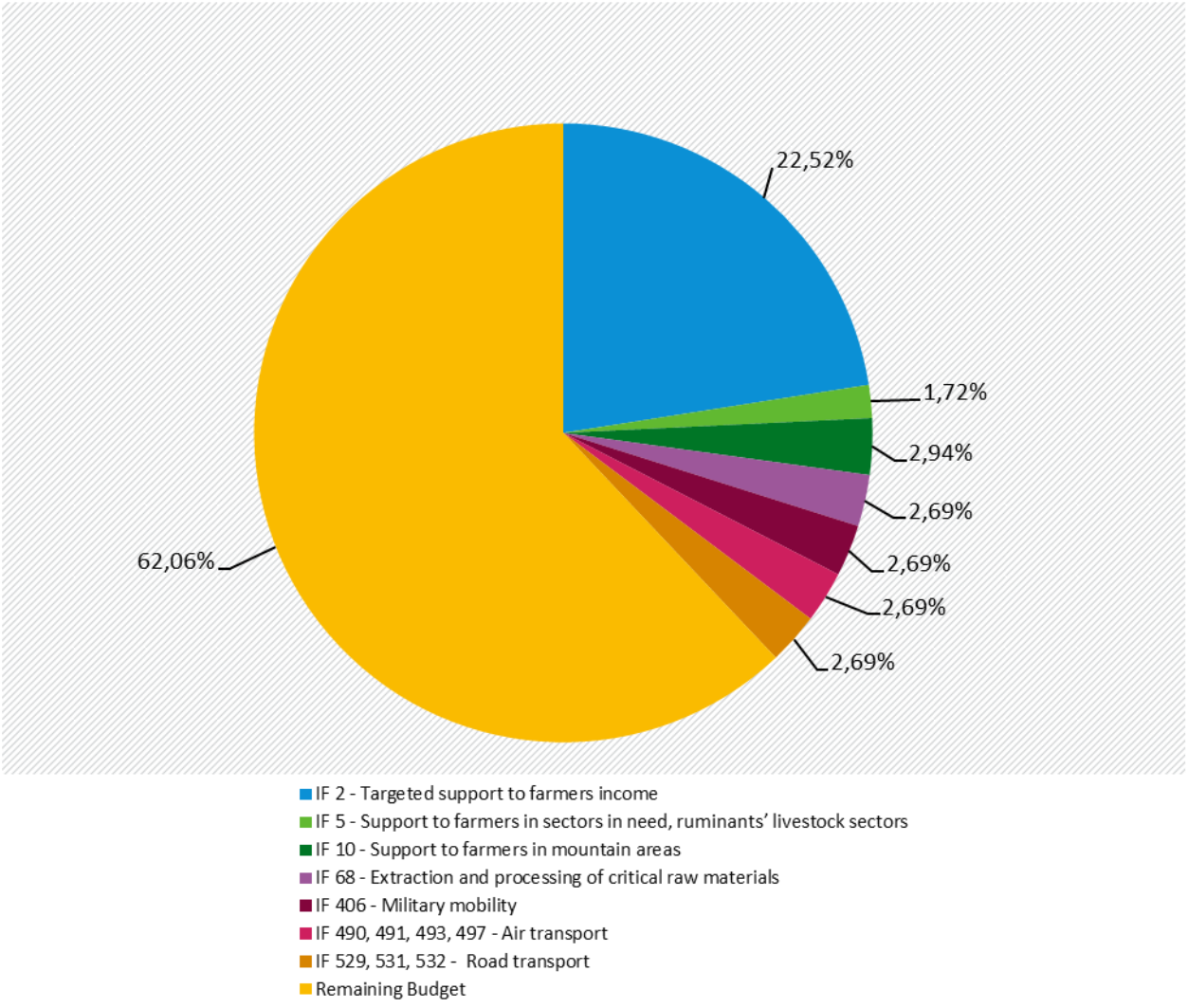
[2] The detailed calculation basis for the scenario is presented in Annex 2.

3 Scenario results: Quantification of overestimation

Overall, the seven selected IF (-groupings) would already cover 38% of the climate and environmental quota[3] without actually making any significant contributions.

Figure 1

Quantifying the overestimation of the NRPP 2028 - 2034 climate and environmental quota



Quelle: Own calculations

4 CAP Income support as a key lever

A particularly high proportion of the climate and environment quota is accounted for by area-based income support for farmers under IF 2**.** According to current estimates, the range of possible EU funds for IF 2 is between €133 and €246 billion (see link and link). Assuming an average budget volume of €189.5 billion, these payments would contribute 22.5% to the climate and environment quota (43%) of the NRPP and 10.9% to the climate and environment quota (35%) of the entire MFF. This means that, even under this assumption, IF 2 is by far the most important lever for formally achieving the climate and environment quota. If the budget were higher, this share would increase significantly. IF 2 is therefore not only the most financially

[3] The climate and environment quota of 43% amounts to €336.65 billion of the total budget; the €336.65 billion was used as the reference value (divisor) for calculating the shares of IFs in the climate and environment quota.

powerful area of intervention in the CAP, but also likely to be one of the most financially powerful individual areas in the entire MFF.

In terms of content, however, this central financial role is clearly disproportionate to the actual climate and environmental impact of IF 2. Targeted income support combines the previous area-based basic income support, redistribution and young farmer payments and is not, or not sufficiently, linked to specific climate or environmental performance. Funding is only tied to compliance with the general minimum requirements of the new farm stewardship system, whose ecological and environmental standards ("protective practices") are currently likely to be below the previous conditionality and which, moreover, will only be defined by the Member States as part of the NRPP programming. Evaluations by the European Court of Auditors (see link) and a wide range of scientific literature (see link and link) consistently show that area-based income support is not usually linked to measurable emission reductions or systematic improvements in biodiversity. Its effects remain largely limited, context-dependent or indirect. In some cases, they are even considered to have a stabilising effect on emission- and land-intensive production systems, with potentially negative effects on the environment and climate (see link and link). These assessments are supported by the European Commission's recently published study on CAP budget tracking (see link). Using an alternative, more differentiated methodology, the study concludes that the contribution of direct payments to climate protection is significantly lower than in the current methodology (around 21% instead of 40%). At the same time, it explicitly points out that potentially negative climate and environmental effects are not taken into account in budget tracking.

Against this background, the Commission's proposed allocation of 40% to climate and environmental objectives clearly contradicts the empirically proven impact. The assessment is based primarily on formal "environmental mainstreaming" logic rather than on demonstrable positive effects. Due to its enormous budget volume, IF 2 is thus at the structural heart of the greenwashing debate and one of the most strategically important areas of misclassification not only in the CAP, but possibly in the entire MFF.

5 Other areas with significant potential for overestimation

In addition to the CAP's income support (IF 2), the scenario presented includes other IFs that are assigned climate and environmental coefficients of 40% or 100%, even though there is no reliable evidence of positive effects. These include, in particular, coupled income support, compensatory payments for disadvantaged areas, extraction and processing of critical raw materials, road and air transport infrastructure, and military mobility. Together with IF 2, these areas included in the scenario account for around 38.0% of the NRPP's climate and environmental quota without making a correspondingly demonstrable contribution to the targets (see also Annex 1).

In addition, there are other IFs with high overestimation potential that were not considered in this scenario, including tourism (IF 95), CCS technologies (IF 167–171), low-carbon hydrogen and derivatives, and electricity generation based on these (IF 235, IF 183), nuclear energy (IF 248) and space research (IF 384). If each of these five IFs is allocated a 5% share of the NRPP budget, the share of the NRPP volume and thus the overestimation effect increases from 38.0% to 51.5%.

6 Conclusions and recommendations for action

Key findings: The analysis shows that the informative value of the climate and environment quota of the MFF 2028–2034 is significantly weakened by systematic overestimations. The overestimation is quantitatively relevant because it affects a number of IFs whose financial

resources are expected to be considerable. The allocation of climate and environmental coefficients to the IFs is not explained or justified at any point in the Performance Regulation, nor is it clear which thresholds are decisive for a classification of 40% or 100%. For the selection of IFs examined in more detail here, however, there are good reasons why they cannot lead to positive climate and environmental effects, or only to a limited extent. Particularly significant is the income support provided by the CAP (IF 2), which, in the underlying scenario, will account for just under a quarter of the expenditure target in the NRPPs without being sufficiently linked to specific climate or environmental performance.

Need for action in the further negotiation process: Without adjustments in the further negotiation process on the Performance Regulation, the climate and environment quota risks a substantial loss of credibility. The results confirm and reinforce the criticism of the climate and environmental tracking of the EU budget that has been expressed for years by the ECA, among others. If the system proposed in Annex I of the Performance Regulation is introduced unchanged, there is a risk of systematic greenwashing, with a significant gap between formal target achievement and actual impact.

Specific reforms in the area of the CAP: The priority is to correct the calculation of CAP income support (IF 2). This can be achieved either by reducing and differentiating the climate and environmental coefficients for IF 2 more strongly or, alternatively or in addition, by introducing weighting factors within income support**,** analogous to the tracking already applied in the area of biodiversity (see link). In both cases, only those elements that exceed minimum standards and demonstrably deliver climate or environmental benefits should be credited positively**.**

Fundamental reforms of the method: Beyond the CAP, there is a need for adjustment with regard to the method itself. In order to be transparent and comprehensible, the respective positive climate and environmental effects of all IFs from Annex I of the Performance Regulation should be briefly described or justified on the basis of evidence. Where such effects are not sufficiently proven, the assessment must be justified with particular care, a conservative approach must be taken with regard to presumed positive effects, and the coefficient must be reduced accordingly. Alternatively, the design of the respective intervention must be refined in such a way that reliable climate or environmental effects are actually ensured.

The climate and environmental coefficients for the intervention fields relevant to cohesion policy considered here, which have a significant overestimation effect, should also be set to zero.

The proposed principle of applying the highest coefficient in each case should be abandoned. Instead, the contribution of an IF should be calculated automatically as the average of the three climate and environmental coefficients (climate change mitigation, climate change adaptation, environment). This would ensure that synergistic effects and contributions to public goods are taken into account appropriately, while individual effects are not overrated.

Key political message: The credibility and effectiveness of the climate and environmental quota depends crucially on the quality of the calculation of the environmental and climate contributions of subsidised measures. Without a revision of the CAP calculation, numerous other IFs with unjustifiable climate and environmental coefficients, and the underlying methodology, the quota remains a mathematical accounting tool but not an effective steering instrument for the ecological orientation of the EU budget.

A ANNEX 1: Justification for the selection of IFs

Other IFs considered in the scenario with overestimated climate and environmental impact

The following section presents the IFs from the CAP and cohesion policy that were taken into account in the quantified scenario in addition to IF 2. These IFs also already account for a significant or foreseeably increasing financial share of the relevant EU expenditure in the current funding period and are therefore expected to make a mathematically relevant contribution to the reported climate and environmental quota. For these areas included in the scenario, the quantitative financial share they have or can assume is shown, along with why the climate and environmental coefficients assigned to them are not or insufficiently justified from a technical point of view. The aim is to make it clear that the identified overestimation of climate and environmental impacts is not limited to IF 2, but affects several financially strong areas and thus represents a systematic overestimation overall.

Support for farmers in sectors in need, ruminant`s livestock sectors – IF 5 (climate adaptation: 40%, environment 40%)[4]

Coupled support in the livestock sector (IF 5) accounts for around 5% of direct payments in the current CAP strategic plans (see link). If this continues, this corresponds to an estimated budget of approximately €14–15 billion for the period 2028–2034, with a range of approximately €9 to €23 billion. The allocation of 40% for climate adaptation and the environment is not technically justified. Ruminant farming is one of the most emission-intensive areas of agriculture, particularly due to methane emissions. Production-linked income support is not linked to climate, adaptation or environmental requirements and therefore does not make a mandatory contribution to climate adaptation or environmental objectives. Assessments by the ECA (see link) and further analyses (see link and link) show that coupled animal premiums tend to counteract climate objectives in particular.

Support for farmers in mountain areas – IF 10 (climate protection: 40%, climate adaptation: 40%, environment: 100%)

In the current funding period 2023–2027, public funding for payments to areas with natural constraints (ANC) totals €18.72 billion**,** of which around 53% is allocated to mountain areas (≈ €9.9 billion, see link). As the funding area is permanently defined and ANC payments are a structural element of the CAP, a stable budget level can be assumed for the period 2028–2034. IF 10 is classified, among other things, with an environmental coefficient of 100% (ENV). However, evaluations and studies consistently show that payments for mountain areas primarily pursue income and structural policy objectives, in particular securing agricultural use and preventing land abandonment. No demonstrable, causal contributions to climate, environmental or emission reduction targets on this scale can be derived from this (see link, link and link).

Extraction and processing of critical raw materials – IF 68 (climate protection: 40%)

The European Critical Raw Materials Act lists 34 critical raw materials which, in addition to their importance for military technology, aerospace technology, chemicals, semiconductors, medical technology and other areas, are also significant for the transformation of the energy system (generation, transmission and storage) and for electromobility (e.g. lithium, manganese, cobalt). In this respect, indirect contributions to climate and environmental protection are possible. However, these are also reflected in the corresponding IF (energy, transport). At the same time, the Critical Raw Materials Act also aims at the extraction (mining) of critical/strategic raw materials within the EU. Mining is considered one of the most energy-intensive activities and leads to significant greenhouse gas emissions (as well as environmental damage). The mining

[4] The coefficients given reflect the Commission's proposal in accordance with Annex I of the Performance Regulation (COM(2025)545final).

sector is currently responsible for around 1.7% of global final energy consumption link. Looking at the entire value chain of metals, this accounts for around 9.5% of global primary energy consumption (see link). The attribution of a 40% coefficient for climate protection is therefore not justified. In the context of implementing policies for greater strategic autonomy, e.g. in the context of mining activities or the development of processing capacities, IF 68 may be of high financial importance.

Military mobility – IF 406 (climate protection: 40%, climate adaptation: 40%, environment: 40%)

Investments in military mobility in IF 406 relate to the adaptation of all types of transport infrastructure for military requirements as well as the procurement of transport facilities and vehicles. The expansion of transport infrastructure such as roads, airports, seaports, etc. is generally associated with significant negative impacts on the environment (land sealing, soil degradation, disruption of the water balance, loss of biodiversity and habitats) (see also the following sections). Life cycle assessment studies show that road construction itself (material production and construction) has a significant carbon footprint (see link). Furthermore, new or widened roads typically generate 10–20% additional traffic volume (see link). The attribution of a 40% coefficient for climate protection is therefore not justified. Furthermore, there is no evidence in the description of IF 406 or in the indicators to justify the allocation of coefficients for climate adaptation and the environment. These coefficients are therefore not justified, especially in view of the negative effects mentioned above. Given the increasing importance of defence capabilities, it could be tempting for many Member States to also use cohesion policy funds for infrastructure and vehicles. The MFF contributes substantially to the national budget in some Member States.

Air transport – IF 490, 491, 493, 497 (partly climate protection: 40%, climate adaptation: 40%, partly environmental protection)

The investments described in the IFs have no connection to reducing air transport emissions, climate adaptation or environmental protection, which is also reflected in the fact that none of the indicators used are capable of measuring contributions to climate protection, adaptation to climate change or other positive environmental effects. On the contrary, the expansion of terminal capacity (increased energy consumption, increased GHG emissions, land sealing) and the expansion of runways (land sealing and negative environmental impacts, see section on road transport) are expected to have negative environmental and climate impacts. There is a continuous need for the expansion and modernisation of airport terminals, ground infrastructure and security measures, which can tie up large amounts of funds relatively quickly.

Road transport – IF 529, 531, 532 (climate adaptation: 40%, partly environment 40%)

This group's IF focuses on the construction and modernisation of roads and associated parking infrastructure. From a climate adaptation perspective, roads are critical infrastructure that must be adapted to climate change. At the same time, however, new construction can also cause or increase risks from, for example, heavy rainfall (slope slides, scouring, loss of infiltration areas) or heat (rutting and deformation of asphalt, expansion damage to bridges, sealing of surfaces associated with heating). Targeted adaptation strategies are therefore necessary (see link, link, link). There is no indication in the description of IF 529, 531, 532 or in the indicators that such adaptation strategies or measures must be a mandatory part of the projects. The allocation of the coefficient for climate adaptation is therefore not justified.

In terms of other environmental impacts, the Performance Regulation assigns an environmental coefficient of 40% to the construction of new roads. This stands in stark contrast to the results of numerous scientific studies. The negative effects of new road construction include habitat fragmentation (see link) and landscape fragmentation (see link), resulting in the loss of habitats and biodiversity, the introduction of pollutants (tyre abrasion, heavy metals, salts) into soil and

water, and increased air emissions due to higher concentrations of NO_2, particulate matter and ozone precursors (see link). Investments in road construction also contradict the need to reduce individual motorised transport in favour of environmentally friendly modes of transport such as rail and cycle paths. Therefore, the allocation of an environmental coefficient of 40% is not justified.

Significant cohesion policy funds can be invested quickly and easily in road construction in order to implement maintenance and new construction measures that are already planned.

B Annex 2

Scenario calculations

Policy area (level 1)	Policy area (level 2)	#	Intervention field	CCM	CCA	ENV	Financial contribution in billion euros	Coefficient for environment/ climate quota	Share of environment/climate quota in billion euros	Share of environment/ climate quota NRPP
Agriculture and fisheries	Agriculture	2	Targeted support to farmers income	40%	40%	40%	189,50	40%	75,80	22,52%
Agriculture and fisheries	Agriculture	5	Support to farmers in sectors in need, ruminants' livestock sectors	0%	40%	40%	14,50	40%	5,80	1,72%
Agriculture and fisheries	Agriculture	10	Support to farmers in mountain areas	40%	40%	100%	9,90	100%	9,90	2,94%
Business support	Business development	68	Extraction and processing of critical raw materials	40%	0%	0%	22,65	40%	9,06	2,69%
Resilience, defence industry and space	Defence	406	Military mobility	40%	40%	40%	22,65	40%	9,06	2,69%
Transport	Air transport	490	Air transport ground handling – other operations	0%	40%	0%	22,65	40%	9,06	2,69%
Transport	Air transport	491	Airport terminal capacity	0%	40%	0%				
Transport	Air transport	493	Other airport infrastructure (e.g. runways, CNS equipment)	0%	40%	0%				
Transport	Air transport	497	Improvement and upgrade of existing aircraft for safety or air traffic management	40%	0%	40%				
Transport	Road transport	529	Newly built or upgraded roads	0%	40%	40%	22,65	40%	9,06	2,69%
Transport	Road transport	531	Reconstructed or modernised motorways and roads	0%	40%	0%				
Transport	Road transport	532	Safe and secure parking infrastructure	0%	40%	0%				

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