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Steep politics will shape *the next EU budget* and its climate implications

AN ORIENTATION BRIEFING ON THE PROPOSED EU MULTIANNUAL FINANCIAL FRAMEWORK

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The European Commission's newly proposed EU budget is about to step into a tense two-year negotiation process. Straddled with great expectations, the proposal is not much bigger than its predecessor and does little to close Europe's investment gap. Yet, it also puts on the table a major architectural overhaul that delivers agility in exchange for giving EU capitals greater weight in EU spending. Within this restructuring, climate action retains a 35% foothold but faces a new set of challenges and opportunities as the budget and its stated objectives are set to undergo a lengthy debate.

An EU budget proposal forged in a time of crises

The EU budget debate is always a contentious one, yet this year's proposal arguably comes at a historically fraught juncture. Following years of crisis, the EU finds itself in a context where the newly proposed Multiannual Financial Framework (MFF) – the financial backbone supporting EU objectives – is heaped with unprecedented expectations. From competitiveness to security, to climate breakdown and social pressures – a persistent investment gap[1] sits at the core of almost every strategic challenge the bloc now faces. Add to this the recent economic pressures of the US administration's tariffs and a reshuffling of the international order, and the EU budget – seen as complex and rigid – must suddenly step up as a pliable tool for answering urgent needs requiring collective EU action.

In this setting and faced with a political landscape that does not easily lend itself to ambitious shifts in policy, President Ursula von der Leyen's Commission has put forward an MFF proposal that walks a tightrope of significant reform constrained by tenuous politics.

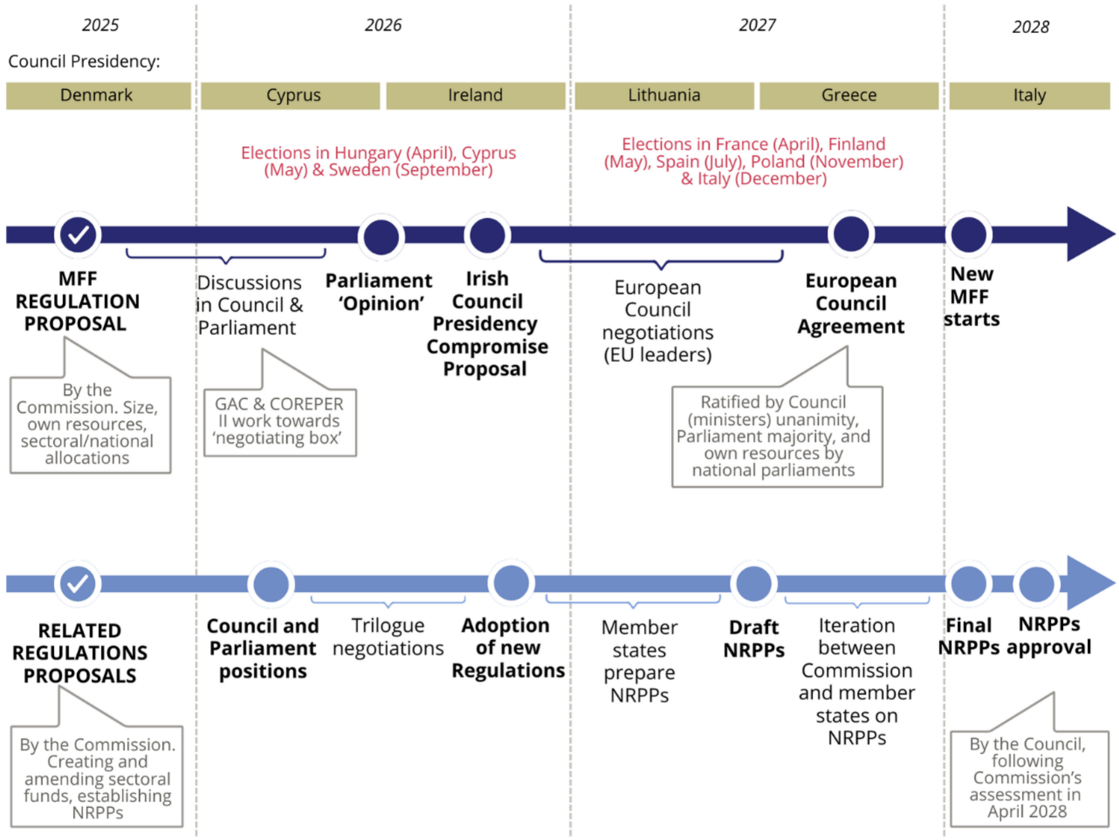
[1] I4CE, 2025, The state of Europe's climate investment, 2025 edition; Mario Draghi, 2024, The Draghi report: A competitiveness strategy for Europe

Major restructuring will meet pre-existing political fights for a long negotiation road ahead

Held under tight wraps until its release, the bumpy presentation of the new MFF[2] has hinted at the difficult road this package will face over the next two years. In the set of proposals put forward, the Commission proposes a minimal increase in size while introducing a step-change in architecture aimed at greater flexibility.

The political trade implicit in this proposal gives member states more control over spending while reducing the size and rigidity of some politically sensitive programmes. At the same time, the Commission grants itself enhanced means to connect EU spending to the delivery of EU policy priorities at national level.

Indicative timeline for the EU's 2028-2034 Multiannual Financial Framework



[2] FT, 2025, Von der Leyen's €2tn EU budget proposal hit by chaotic infighting

REDIRECTING FUNDS FROM TRADITIONAL PRIORITIES DRAWS ATTENTION BUT MAJOR RESTRUCTURING HAS DEEPER IMPLICATIONS

The aspiration to make the EU budget 'simpler, more flexible and more strategic'.[3] has led President von der Leyen to propose a shift in the balance of the MFF. Much attention has focused on the consolidation of multiple funds under the direct management of the European Competitiveness Fund and on the shift of resources away from traditional areas like agriculture and regional development towards this new fund and other centrally managed programmes such as the Connecting Europe Facility and Horizon Europe. However, it is the restructuring of the way that the traditional funds will operate that represents a more fundamental shift in the architecture and philosophy of the EU budget. Drawing heavily on the experience of the post-Covid Recovery and Resilience Facility (RRF), these changes would give the Commission greater oversight not only over EU funding for the competitiveness agenda, but also over national policy decisions.

The first step of this restructuring is to merge Cohesion policy, Common Agricultural Policy and smaller migration and home affairs funds into a mega-programme[4] that, while smaller than the sum of its preexisting parts, still accounts for almost half of the MFF.

The second step is to replace the traditional shared management of funds between local, regional and national authorities with the 'RRF model'. This would see governments negotiate 'national and regional partnership plans' (NRPPs) with the Commission, with the role of regional authorities still up for debate. EU funds would be disbursed upon completion of agreed policy changes and targets , and member states would have greater freedom in how to spend them.

This would replace the current multilevel governance system with one where power lies mainly with national governments – likely finance ministries – and the Commission uses its role of negotiating and assessing national plans to exert greater oversight over national policy decisions. In turn, the European Parliament would relinquish significant oversight power, and EU regions risk losing their current role in co-determining the allocation of EU funds – a fact that has ushered in immediate pushback from both sides.

Climate and energy investment in the next MFF would be significantly shaped by the advent of NRPPs. NRPPs would have to address the common objectives set out in the regulation, complemented by the country-specific recommendations issued by the Commission as part of the European Semester annual budgetary monitoring process. National drafting processes would thus become critical junctures to secure climate measures, and the eventual contents of individual NRPPs – and the Commission's assessment of their reform and investment commitments – would become essential indicators of climate ambition in the 2028–2034 period.

[3] European Commission, 2025, A dynamic EU Budget for the priorities of the future - The Multiannual Financial Framework 2028–2034

[4] The European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security

SEVERAL HIGH-PROFILE POLITICAL BATTLES WILL SHAPE MFF NEGOTIATIONS, WITH MOST CRITICAL DECISIONS LIKELY TO BE MADE AT THE END OF THE PROCESS

While Germany and France seem broadly supportive of the proposed budget's architectural redesign, overall immediate reactions already paint a picture of challenging negotiations ahead, with key battles likely to include:

- **Cuts to agriculture and regional development funding and the centralisation-versus-decentralisation debate** associated with the introduction of the NRPPs are two newly opened political battles that will come to shape this round of MFF negotiations.

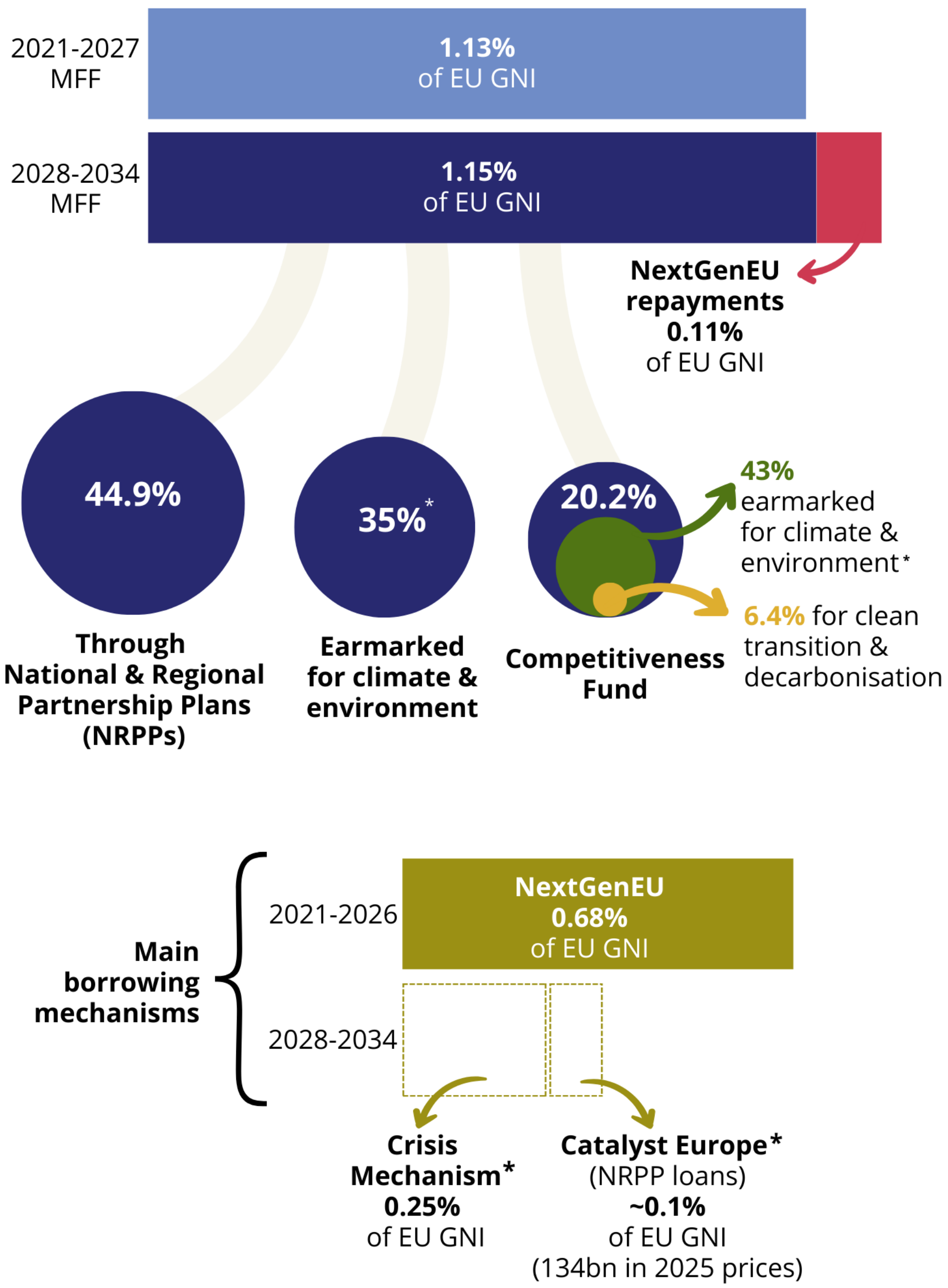
- **The overall size of the budget** has historically been the hardest question to resolve and tends to be tackled at the highest political level towards the very end of the negotiation process. By tabling a modest increase relative to the current budget (from 1.13% to 1.15% of EU GNI), President von der Leyen has erred on the side of caution vis-à-vis national governments, as opposed to the more ambitious position of the European Parliament. Yet the so-called 'frugal' member states – those who tend to be net contributors to the budget, such as Germany, the Netherlands, and Sweden – have already come out to oppose any growth in the budget.[5]

- **New own resources** underpin the small budget increase to make up for some of the additional costs of repaying the post-COVID debt instrument NextGenerationEU and avoid major additional contributions from national budgets. The Commission has proposed a mix of technical adjustments – such as bringing a share of the revenue from the Emissions Trading System and Carbon Border Adjustment Mechanism into the EU budget, a national contribution based on the volume of non-collected electronics – and two new taxes: a tobacco levy and a tax on multinationals. The latter, the Corporate Resource for Europe (CORE), is the latest in a series of Commission proposals to make European and foreign multinationals that benefit from access to the Single Market contribute to its functioning, and which have repeatedly been stalled in the Council where unanimity is required. It is therefore unlikely to be adopted.

- **Two new loan mechanisms for member states** have been proposed in response to the European Parliament's request to consider further joint borrowing. Totalling up to €545bn in total in current prices, they would support the implementation of NRPPs and be mobilised for future crisis response. Although they fall short of matching the NextGenerationEU mechanism in terms of either size, purpose, or ease of activation, they have already come under fire from frugal member states.[6]

[5] [6] Reuters, 2025, Germany, Netherlands, Sweden oppose EU common borrowing

Key figures in the EU's 2028–2034 MFF proposal



*Source: European Parliament Research Service[7], except * which are from the Commission's 2028-2034 MFF proposal.*

[7] European Parliament Research Service, 2025, EU budget 2028-2034: Overview of the Commission's proposal

Grading the MFF proposal for climate: What looks good and what leaves homework to be done?

The benchmarks below grade the Commission's MFF proposal against the key elements needed for securing a fast, fair and funded transition in the EU and internationally.

1. Funding and investment at the scale that's required

GRADE: DIFFICULT

ASSESSMENT

The 2028–2034 MFF grows slightly (from 1.13% to 1.15% GNI), with strong support for energy links and new loan tools, but overall spending declines as NGEU ends. The design of new borrowing mechanisms and new own resources can be detrimental to overall green spending.

POSITIVES AND NEGATIVES

The 2028–2034 MFF represents a minor increase from 1.13% to 1.15% of EU GNI compared to the previous MFF when subtracting out the cost of NextGenerationEU (NGEU) repayments. In particular, there is a significant increase for cross-border energy infrastructure projects and a dedicated stream for clean transition and decarbonisation. New permanent mechanisms would allow member states to borrow directly from the EU in some cases: for emergencies – including climate impacts – and another to support the implementation of national plans – including climate policies.

However, overall EU spending is set to decrease. The existing off-budget NGEU disbursements are ending in 2026, while the proposed new borrowing mechanisms are smaller, made up of loans, have no green earmarking and are not guaranteed to be activated. Moreover, the proposed new EU own resources would add little income and redirect part of ETS and CBAM revenues from national climate budgets into general EU spending.

2. A clear and stable trajectory towards climate neutrality and resilience

GRADE: MIXED

ASSESSMENT

A stable climate trajectory is signalled by the proposed 35% climate earmark, the 'Do not significant harm' principle across the budget and the link of NRPPs to a fair green transition. But broad objectives, weak tracking, an unclear role for regional and local authorities, and the absorption of the LIFE programme undermine credibility.

POSITIVES AND NEGATIVES

The proposed budget includes climate and environment earmarking of 35% – broadly in line with current commitments – as well as of 43% in the new Competitiveness Fund, signalling stability despite the shifting political context. The new National and Regional Partnership Plans (NRPPs) – roughly 44% of the budget – will have to deliver on a socially fair transition towards climate neutrality and be consistent with National Energy and Climate Plans (NECPs), the Effort Sharing Regulation and nature restauration targets. The application of the Do No Significant Harm (DNSH) principle – including adaptation and resilience by design – to the entire budget will theoretically prevent EU funded activities from harming climate, the environment or Europe's resilience.

However, the objectives set for the NRPPs are broad and unfocused, leaving wide discretion to member states in their planning and to the Commission in its assessment, while the unclear role of regional and local authorities risks undermining effective delivery on the ground. The proposed methodology to track climate spending also raises concerns, as it includes questionable investments – such as parking infrastructure as climate adaptation spending. Finally, the discontinuation of the LIFE programme and its dilution into the Competitiveness Fund risks leaving gaps in existing environmental protection investments if they are not directly linked to industrial goals.

3. A resilient, fair, and green competitiveness strategy

GRADE: HAS POTENTIAL

ASSESSMENT

The new MFF clearly prioritises the EU's competitiveness, including via a Competitiveness Fund with 43% climate earmarking and a dedicated stream for decarbonisation and the clean transition. Despite its broad coordination toolkit, it lacks social conditionalities and its impact hinges on private leverage and member states' co-financing.

POSITIVES AND NEGATIVES

The MFF proposals are framed by an aspiration to deliver "EU added value" via cross-border scale and impact, with competitiveness defined broadly to include industrial deployment, skills, energy efficiency, circularity and building renovation. The "Competitiveness, prosperity and security" heading is the set of programmes that grows the most in the budget. This includes the new European Competitiveness Fund – the flagship response to the Draghi report, which is designed to leverage private finance and support companies across their development stages. 43% of this fund is required to contribute to climate and environment spending. While the fund's clean transition and decarbonisation pillar is relatively modest – just 6.4% of it compared to 31.9% for defence and security – it is foreseen to be topped up significantly with ETS revenues via the Innovation Fund and the Industry Decarbonisation Bank. The proposal includes coordination mechanisms to pool resources for common priorities and a broader toolbox to finance green competitiveness, including procurement, deployment, de-risking instruments and EU preference.

That said, the Fund lacks social conditionalities and its impact will depend heavily on its multiplier effect – the ability to crowd in private investment – and on member states' willingness to co-finance joint projects.

4. Energy security through cheaper renewable energy sources, connectivity, and flexible demand

GRADE: HAS POTENTIAL

ASSESSMENT

The MFF would boost energy infrastructure through a fivefold increase in the 'Connecting Europe Facility – Energy' stream (in nominal terms), ensure consistent investments across key areas such as grid infrastructure and energy savings, and fully exclude coal-to-gas conversions. However, member states could take advantage of lax eligibility criteria and avoid complementary investments.

POSITIVES AND NEGATIVES

The MFF proposal includes a substantial increase in funding for energy infrastructure, notably through the 'Connecting Europe Facility – Energy' (CEF-E), which has received a fivefold increase (in nominal terms). This expansion aims to facilitate cross-border energy projects and mobilise national investments – particularly for strengthening electricity transmission infrastructure necessary for a resilient and competitive European grid. The European Competitiveness Fund (ECF) is expected to streamline and consolidate funding for a broad range of technology investment and manufacturing needs, and it emphasises support for demand-side technology and the uptake and deployment of clean alternatives. This is a positive signal that the critical lever of energy saving has not been forgotten. The proposed Performance Regulation provides a comprehensive framework covering all energy-related intervention areas that are eligible for EU support and ensuring consistency in how funds are allocated and spent. This includes key areas such as deep energy efficiency improvements and grid infrastructure and fully excludes support for converting from coal to fossil gas in heating.

However, broad, flexible categories and eligibility lists leave the door open for support for less impactful activities. And while the door is open for member states to reinforce the Competitiveness Fund's energy infrastructure investments, this remains at their discretion.

5. A just and green social model

GRADE: DIFFICULT

ASSESSMENT

While the Social Climate Fund for addressing ETS2 impacts is maintained, the absence of a dedicated Just Transition Fund and optional territorial plans, along with the Competitiveness Fund's focus on strategic industries, risks leaving some regions and citizens on the sidelines of the green transition, as well as potentially overshadowing NRPPs' 14% social spending target and the inclusion of investment for social housing.

POSITIVES AND NEGATIVES

NRPPs are required to address economic, social and territorial disparities across all types of regions, with a 14% horizontal spending target for social policy interventions, corresponding to the size of the current European Social Fund. Social and affordable housing is included as a distinct objective, while the Social Climate Fund remains tasked with mitigating the impacts of ETS2 – the carbon pricing system for buildings and transport – on vulnerable households and SMEs.

However, the disappearance of a dedicated Just Transition Fund makes it difficult to evaluate von der Leyen's promise to "significantly increase" support for the just transition, and place-based territorial plans for just transition regions are now optional. Beyond earmarking for less-developed regions, measures to address social and territorial disparities will compete for funding with other objectives of the NRPPs. By prioritising skills over broader social considerations and focusing on strategic sectors rather than people and regions, the Competitiveness Fund's clean transition heading risks sidelining citizens from the benefits of the green transition in regions without existing strategic industries, such as in Central and Eastern Europe.

6. Europe as a credible and reliable leader internationally

GRADE: MIXED

ASSESSMENT

The MFF proposes to strengthen the EU's global role with a 37.9% increase in the external action budget. It also supports climate and development priorities with better alignment and financing. But by removing thematic targets and increasing Commission discretion, it risks undermining the credibility, coherence and predictability of EU partnerships.

POSITIVES AND NEGATIVES

In a context of shrinking overseas development aid worldwide, the proposed increase of the EU's external action budget to €200bn – a 37.9% rise compared to current programmes – signals the Commission's ambition for Europe to play a stronger global role, particularly on climate and development priorities under the Global Gateway strategy. The proposal aims to enhance the effectiveness and impact of EU external action through better alignment of internal and external policies, more targeted geographical and sectoral interventions, and more efficient use of guarantees and blending instruments to support Official Development Assistance for Least Developed Countries and Lower Middle-Income Countries.

Yet the removal of thematic spending targets and binding priorities in exchange for greater agility comes with significant risks. In the absence of a coherent policy framework for guiding Europe's external action, greater Commission discretion may allow shifting political priorities – such as migration concerns or transactional economic goals – to overshadow long-term development needs and climate finance. It also makes it harder to ensure coherence between the EU's domestic policies and its external commitments. All in all, this approach risks eroding trust, predictability and the credibility of the promise of "mutually beneficial partnerships".

ABOUT E3G

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