

Performance Regulation: Fixing the details

A joint assessment from Europe’s leading environmental organisations of the Annex I of the Budget expenditure tracking and performance framework ‘performance regulation’ ([COM 2025/454](#))

Today’s geopolitical realities bring renewed uncertainty, heightened security risks and further expose Europe’s vulnerabilities. These challenges make one conclusion clear: accelerating the clean transition and addressing the triple crisis of climate change, biodiversity loss, and pollution are essential to strengthening Europe’s long-term resilience, autonomy, security, and competitiveness. The long-term EU budget is pivotal in this effort, providing the stable investment framework needed to meet these challenges.

In that spirit, the proposed next EU long-term budget (MFF 2028-2034) contains a horizontally applicable Budget expenditure tracking and performance framework (‘performance regulation’) ([COM 2025/454](#)) that for the first time introduces a set of rules to be applied across the entire MFF. This positive evolution of the MFF governance can ensure stronger and streamlined transparency and accountability on the performance of the EU budget, contributing to a more impactful budget. At the same time, the definition of some horizontally applicable rules has the potential to make the implementation of the MFF simpler thanks to a clearer, lighter and more accessible framework.

However, in its draft version, the regulation entails some grave shortcomings. If those shortcomings are not addressed during the negotiations, they could lead to a systemic and comprehensive undermining of the very principles that are meant to be elevated through the performance regulation.

This joint briefing highlights the main concerns with the Commission proposal, particularly with respect to the tracking of climate and environmental spending in Annex I. It provides decision-makers with a clear, authoritative reference for Council and Parliament negotiations, backed by leading European environmental CSOs.

The analysis of Annex I considers more than 100 intervention fields and thereby provides the most complete review of the climate and environment tracking methodology available to-date.

However, the briefing does not fully cover the following elements, which should nevertheless be addressed in the negotiations ahead, notably:

- **Do no significant harm principle (DNSH):** The briefing highlights several intervention fields included in Annex I, which should not be eligible for EU funding given their non-compliance with the DNSH principle. However, the briefing does not provide a complete analysis of the DNSH principle, pending forthcoming Commission guidance.
- **Indicators:** The briefing does not provide comments on the proposed list of indicators. Our general view is that these indicators require further improvement (for example, CAP spending impact indicators should be included and biodiversity indicators reintroduced) to better reflect the anticipated effects of the policies and related spending.
- **Social tracking:** The briefing also excludes the social dimension; while further mainstreaming social priorities and setting a target for social spending is key, social rights organisations and social partners should be consulted on this issue.

1. Higher spending target and elimination of exemptions from the environmental and climate spending target

Article 4 of the Performance Regulation sets the legislative foundation of the environmental and climate spending target in the next budget. The Commission proposes a 35% spending target. In light of the investment needs for the achievement of the EU's 2030 climate and nature target and the recently adopted 2040 climate target, as well as the 8th EU Environment Action Programme objectives, a 35% spending target is insufficient.¹ As acknowledged inter alia by the Draghi report on the future of European competitiveness, the EU faces an annual investment gap of at least EUR 477 billion to decarbonise its energy and transport infrastructure.² In addition, according to the European Commission, achieving the EU's biodiversity and circular economy targets for 2030 requires an additional mobilisation of EUR 122 billion annually.³ To respond to the scale of the challenge, the undersigned organisations call for increasing the target to 50%.

Beyond the size of the target, Article 4 introduces exemptions that weaken the target, notably by excluding defence and security spending from the calculation base. Such exemptions directly undermine the credibility of the environmental and climate spending target and should therefore be removed.

Defence and security spending is not clearly defined, creating a risk of arbitrary interpretations, lower effective targets, and inconsistent implementation across the

¹European Commission.2022. [Biodiversity Financing and Tracking: Final Report](#).

² Mario Draghi.2024. [The Future of European Competitiveness](#).

³ European Commission. [Environmental Investment Needs & Gaps](#).

budget and the Union. Moreover, at a time when biodiversity and climate crises pose major threats to our societies, drawing a strict distinction between environmental and security spending is unjustified. Many climate and environmental investments strengthen European security and resilience.⁴ Even if such a distinction were accepted, a 35% target, even if raised to 50%, leaves substantial room for non-climate and environment-related expenditure.

More fundamentally, climate and environmental mainstreaming is designed to deliver multiple benefits. Such spending does not only protect the environment; it also supports other primary and secondary objectives, including farmers' incomes, public health, strengthening European industry, securing affordable housing, and lower energy prices.

Finally, excluding spending from the calculation base reduces transparency and lowers the target through the backdoor. With each per cent of exempted spending, the amount of climate and environmental investments mobilised by the spending target is reduced accordingly. Preliminary estimates suggest that up to €100–175 billion of the next MFF could be allocated to defence – representing 5–8% of the overall budget.⁵ This would reduce the effective spending target from the stated 35% to between 33.25% and 31.2%.

To ensure transparency, accountability and straightforward implementation, co-legislators should remove the exemptions and agree on a credible, consistent and transparent 50% environmental and climate spending target.

2. Priority interventions to address greenwashing

Special attention should be paid to a number of interventions within Annex I that are of particular concern **since they could lead to systemic and significant greenwashing** if not addressed in the negotiations. The table below lists interventions currently included which we consider would not contribute to the environmental and climate mainstreaming objectives. It is worth reminding that setting a 0% climate and environment contribution on an activity does not preclude it from being financed by the EU budget; rather, it ensures that the environmental spending target genuinely reflects a substantial contribution to achieving climate and environmental objectives. (In the technical annex we have marked separately those activities which should be excluded altogether).

⁴ The [restoration of wetlands and peatlands](#) for instance is increasingly recognised as a sustainable and cost-effective investment that in certain locations contributes to both physical security and defence.

⁵ On the calculation of the defence exemption: 75bn-100bn (ECF-Policy window 4), 25bn-100bn (NRRPs), Global Europe omitted, resulting in a range of 100-175bn for military defence expenditure.

The following interventions warrant specific attention to avoid greenwashing:

Intervention field	Environmental tag			Reasons for greenwashing threat	Expected greenwashing impact on the EU budget
	CCM	CCA	ENV		
2 Targeted support to farmers income	40% <u>0%</u>	40% <u>0%</u>	40% <u>0%</u>	Area- and production-based income support encourages environmentally harmful activities and overall does not have positive impacts on climate and the environment, as shown by various European Court of Auditors' reports. ⁶	€296 bn (NRPPs) proposed for income support would lead to €118.4 bn greenwashing ≈ 6% of EU budget
406 Military Mobility	40% <u>0%</u>	40% <u>0%</u>	40% <u>0%</u>	Investments in military mobility do not inherently benefit climate or environment objectives. On the contrary, investments in road infrastructure or internal combustion engine vehicles would have a negative impact on emissions, pollution or biodiversity. Therefore, this intervention should be tagged at 0%.	€17.65 bn (CEF) + €10 bn (ECF) + €22.65bn (NRPPs) ⁷ would lead to €20,12 bn greenwashing ≈ 1% of EU budget
68 Extraction and processing of critical raw materials	40% <u>0%</u>	0%	0%	Given that not all critical raw materials included in the Critical Raw Materials Act find application in technologies and sectors relevant for the energy transition, a general positive tagging for climate is not justified. Moreover, some of the materials included in the Critical Raw Materials Act are primarily used in technologies with climate-adverse effects, notably in the aerospace and defence sector. Therefore, this intervention should be tagged at 0%. Finally, given the increased focus on critical mineral investment in EU partner countries (including a number of current Global Gateway and prospective projects in the new budget period), there is a high risk that counting a climate mitigation contribution from these projects would severely skew the climate mainstreaming accounting of Global Europe, without delivering direct mitigation benefits.	€25bn (ECF)+ €5bn (NRPPs) ⁸ would lead to €12 bn greenwashing ≈ 0.61% of EU budget
Share of next MFF at immediate risk of greenwashing					<u>7.61 %</u>

⁶ European Court of Auditors. 2020. [Biodiversity on farmland](#).

European Court of Auditors. 2022. [Climate spending in the 2014-2020 EU budget](#).

⁷ 17.65bn is the indicated share for military mobility in the CEF and 10bn of the ECF Resilience, Security, Defence & Space policy window + estimated share of NRPPs (Source: German UBA, 16 February 2026)

⁸ 25bn of the ECF Resilience, Security, Defence & Space policy window and an additional €5bn from NRPPs spent on critical raw materials extraction and processing.

3. Analysis of Annex I - 'Technical Reference Document'

The consolidated version of Annex I of the Performance Regulation below provides a complete overview of all intervention fields that should be addressed in the negotiations ahead.

Annotations were limited to existing interventions, and only those interventions are listed that require a change. In some cases, intervention fields were added that resemble existing ones, but we introduced additional conditions that, if met, would justify a higher co-efficient. Furthermore, it is key to introduce separate tracking for all six climate and environmental spending targets, to ensure accountability, transparency, and credible reporting on the EU budget's contribution to EU-wide policy objectives and [its international reporting obligations](#), including the 8th Environmental Action Programme, and the Convention on Biological Diversity.⁹ To that end, our proposal reintroduces separate tracking of biodiversity expenditure.

For more information - the co-authoring organisations

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⁹ Discontinuing the dedicated tracking of biodiversity expenditure would put the EU at risk of failing to meet its [reporting obligations](#) under the global Kunming-Montreal Biodiversity Framework. As an official member of the Convention, the European Union is required to [report at regular intervals](#) on the implementation of the Convention, including the biodiversity expenditure from the EU budget.

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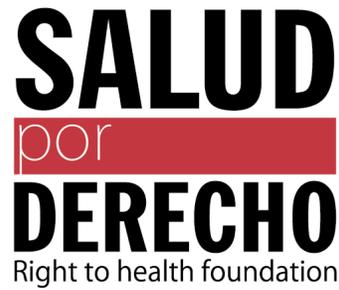
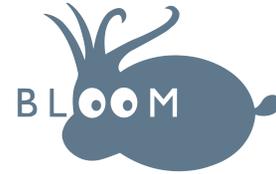


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Co-signing organisations

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