

Green is The New Gold – Update

We published a report - “Green is the New Gold” - on 16 July 2020 in which we described the measures under consideration in Europe for the promotion of sustainable investments. The report analyses the main instruments announced by the EU, which plans to mobilise over Eu1tn of resources over the next ten years through Next Generation EU, the European Green Deal and the Action Plan.

Today we publish a new report - “Green is the New Gold – Update” - in which we analyse the main elements of the agreement achieved yesterday on the Recovery Plan.

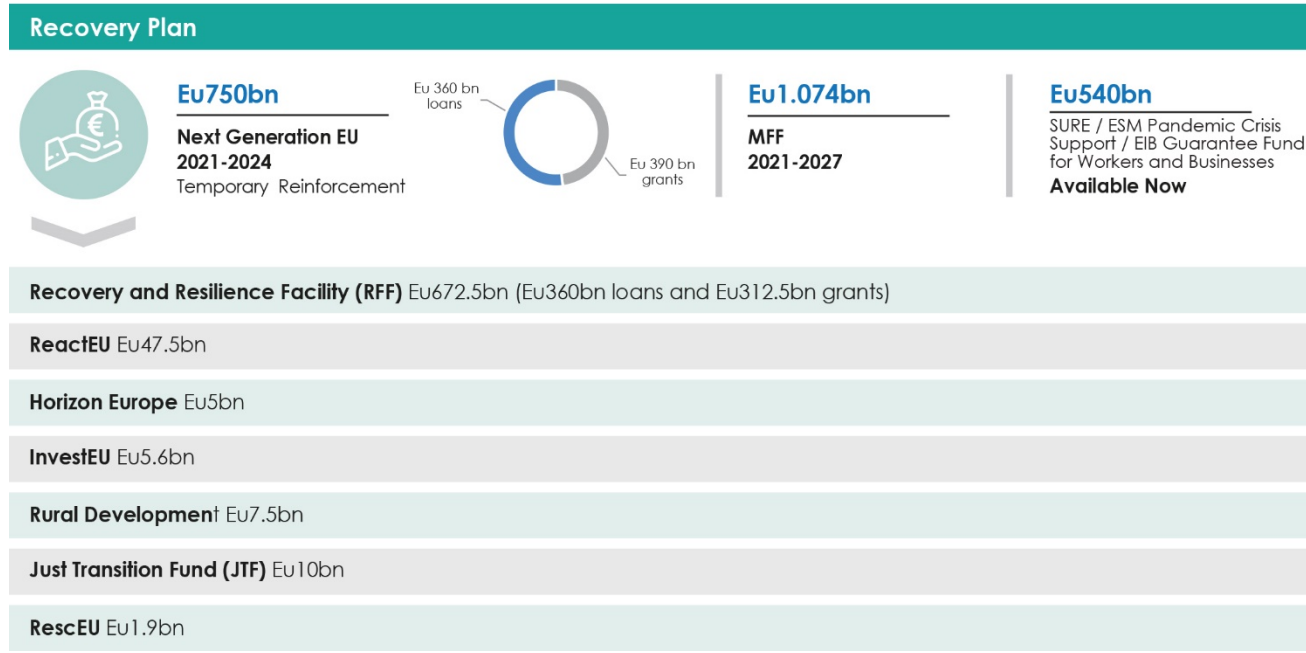
- **Agreement achieved on the Recovery Plan.** The figure for the Next Generation EU financial package remains unchanged at Eu750bn, with a smaller share for grants at Eu390bn and a larger one for loans at Eu360bn (vs the previous proposal of Eu500bn in grants and Eu250bn in loans). Italy is still one of the largest beneficiaries of the recovery instruments and potentially should receive ca. Eu208bn (vs the previous Eu172bn), of which Eu127bn as loans and Eu81bn as grants. The overall amount for the 2021-2027 MFF has been lowered to Eu1,074.3bn (vs the initial proposal in February of Eu1,100bn). In line with the first revised proposal by the president of the EU Council, an overall climate target of 30% will apply to the total amount of expenditure from the MFF and Next Generation EU and should be reflected in appropriate targets in sectorial legislation. The approval process for the national recovery plan (NRP) has been radically modified through the introduction of a stronger role for the council (ECOFIN) and the scaling-back of the EU Commission’s role.
- **Europe to promote massive investments over the next 10 years: taxonomy is the key.** In a nutshell, the EU Commission is working on a wide and unprecedented package of measures, amounting to over Eu1tn, to relaunch the EU economy through sustainable, green investments. The combination of public and private capital that will be allocated to these investments represents a major opportunity that cannot be missed. The pandemic accelerated the process, with the urgent launch of the Next Generation EU plan building on the flagship Green Deal announced by the new EU Commission President Von der Leyen in December 2019 and the Action Plan. Our previous report, Green is the New Gold, explored the details of these plans and the Taxonomy. An economic activity is deemed to be taxonomy-aligned if it satisfies three conditions: 1) it substantially contributes to at least one of the six environmental objectives defined in the Regulation, the first two of which, Climate Change Adaptation and Climate Change Mitigation, will be implemented at the end of 2021; 2) it does no significant harm to any of the other five environmental objectives; 3) it complies with minimum social safeguards. There is no doubt that this represents a key element for the understanding, implementation and success of the EU’s plans.
- **Sustainability, in particular ESG themes, will become increasingly crucial for listed companies and investors.** These themes are increasingly pervasive within the investment community. In our view, the crucial advantages for listed companies with a strong ESG focus will be: **i) increased resilience and a more sustainable growth profile; ii) reduced cost of capital; iii) gaining access to new investors and flows; iv) enhanced reputation.** We expect Italian companies to increase their focus on these factors, which will entail enhancing their efforts in terms of investing in sustainability, repositioning some businesses, and improving non-financial disclosure.

Intermonte Research Team

Agreement Achieved on Recovery Plan

Yesterday morning after four days of intense negotiations, EU Leaders reached agreement on the Recovery Fund-Next Generation EU. The figure for the financial package remains unchanged at **Eu750bn**, with a lower figure for grants at **Eu390bn** and a higher one for loans at **Eu360bn** (vs the previous proposal of Eu500bn and Eu250bn respectively). Italy is still one of the largest beneficiaries of the recovery instruments and potentially should receive ca. Eu208bn, about +Eu37bn (vs previous Eu172bn), of which Eu127bn as loans and Eu81bn as grants.

The New Recovery Plan



Source: EU Commission

Key element of the agreements. These are the main elements of the European Recovery Plan:

- **Next Generation EU:** the amount for recovery instruments, Eu750bn, remains unchanged on the previous proposal but the split between grants and loans differs; Eu390bn in grants (vs the previous proposal for Eu500bn) and Eu360bn in loans (vs previous proposal Eu250bn).
- **Recovery and Resilience Facility:** this instrument has been reinforced to Eu672.5bn (vs the previous Eu540bn), of which Eu360bn in grants and Eu312.5bn in loans. 70% of the grants provided by the RRF will be committed in the period 2021-2022 and the remainder by the end of 2023. To access the RRF funds, the allocation key for 2023, which was the 2015-2019 unemployment criterion, is replaced by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the 2020-2021 period, and will be calculated by 30 June 2022. In order to access RRF funds, a Member State will prepare a national Recovery and Resilience Plan for 2021-2023, setting out its own reform and investment agenda for those years. The approval process of the national recovery plans (NRP) is as follows:
 - **EU COMMISSION:** will assess NRPs within two months of the submission. In order to obtain a positive assessment of the Plan, the effective contribution to the green and digital transition is only one of the prerequisites. The criteria of consistency with the country-specific recommendations, as well as strengthening growth potential, job creation and economic and social resilience of the Member State will need the highest score in the assessment.
 - **COUNCIL (ECOFIN):** the assessment of the RRP will be approved by the Council (ECOFIN), by a qualified majority (55% of member states, representing at least 65% of the EU population) on a Commission proposal, through an implementing act that the Council will endeavour to adopt within 4 weeks of the proposal.
 - **ECONOMIC AND FINANCIAL COMMITTEE (ECOFIN technical committee):** the positive assessment of payment requests will be subject to satisfactory fulfilment of the relevant milestones and targets. The Commission will seek the opinion of the Economic and Financial Committee on the satisfactory fulfilment of the relevant milestones and targets. The Economic and Financial Committee will strive to reach a consensus.

- **ONE OR MORE MEMBER STATES OPTION:** if, exceptionally, one or more Member States deem that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets (EU Commission Recommendations, reform plans, green and digital transitions, etc.), they may ask the President of the European Council to refer the matter to the next European Council. If the matter is referred to the European Council, no Commission decision concerning the satisfactory fulfilment of the milestones and targets and on the approval of payments will be taken until the next European Council has exhaustively discussed the matter.
- **MFF 2021-2027:** the overall amount has been lowered to Eu1,074.3bn (vs the initial proposal in February of Eu1,100bn). For the 2021-2027 period, a lump-sum reduction has been proposed for the GNI-based contributions by Denmark, Germany, the Netherlands, Austria and Sweden.

In the final proposal, the fact has been highlighted that climate actions will be mainstreamed into policies and programmes financed under the Next Generation EU and MFF. As a general principle, all EU expenditure under the Recovery Plan should be in line with the objective of EU climate neutrality by 2050 and with the Paris Agreement. In line with the first revised proposal by the president of the EU Council, an overall climate target of 30% will apply to the total expenditure from the MFF and Next Generation EU and should be reflected in appropriate targets in sectorial legislation.

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 - Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
 - For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)
- Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

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