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CENTRE FOR EUROPEAN STRATEGY

PRESIDENCY PAPER I

# The new EU cohesion policy and the energy & climate objectives

Paweł Świeboda

President, demosEUROPA – Centre for European Strategy

## Cohesion policy and energy & climate objectives in the current financial perspective

Cohesion policy has traditionally been focused on ensuring greater convergence inside the European Union. The usual way to go about achieving convergence has been through narrowing the gap in the level of income. Therefore the focus of cohesion spending has been primarily on policy areas most conducive to economic growth and employment.

Environmental and climate change-related objectives are a recent new point of reference in the discussion about cohesion policy outcomes. Spending priorities for the current financial perspectives had been determined before climate change moved to the top of the EU's political agenda. Therefore also assessing the share of EU cohesion policy budget spent on climate action is difficult.

Community Strategic Guidelines for Cohesion 2007-2013 point to energy efficiency and renewable energy as one of the 12 priority areas for investments from structural funds. The Commission has assessed that 30 percent of cohesion funds in 2007-2013 will be beneficial to the environment[1], which includes not only helping to meet climate policy objectives but also providing infrastructure to deal with waste management and water treatment. Weak criteria and decentralisation of the management of the funds have been blamed, however, for diverting investment to areas other than energy efficiency and renewable energy.

Ideas on a separate environmental fund were floated by the European Parliament in the 1990s but have never been agreed. This explains the reason for the European Commission's current caution when it comes to proposing a separate instrument focused on climate action. A number of studies have suggested that the overall impact of EU funds has been to increase rather than decrease EU emissions[2].

In the 2000-2006 Financial Perspective, almost 60 percent of the total Structural Fund spending[3] was spent on development of roads, 21 percent on rail networks and merely 0.2 percent on bicycle tracks. Only 0.67 percent of structural fund spending was devoted to energy infrastructure, of which around 44 percent was spent on renewable sources, energy efficiency and conservation.

The Friends of the Earth Europe / CEE Bankwatch Network report on planned structural spending in Central and Eastern Europe pointed out that energy efficiency and renewable energy had been allocated one percent of EU funds, 1.8 bln euros[4].

1. Cited in „Investing in Our Future: a European Budget for Climate Security", Green Alliance, London 2007.
2. Green Alliance, ibid.; „How the EU funding plans are shaping up to fuel climate change". Friends of the Earth Europe and CEE Bankwatch Network, 2007.
3. 18th Annual Report on Implementation of the Structural Funds (2006), European Commission, 2006.
4. Friends of the Earth Europe and CEE Bankwatch Network, Ibid.

## New round of negotiations – the Commission's proposal

The new proposal of the Commission on the Multiannual Financial Framework recalls past evaluation of spending with "many examples of added value and of growth and job creating investment that could not have happened without the support of the EU budget". The proposal admits, however, "some dispersion and lack of prioritisation". The latter is seen as point of departure for a series of changes that the Commission is proposing to cohesion policy. The Europe 2020 programme becomes the basis for the Commission's reform agenda. In particular, growth enhancing investment in infrastructure, regional competitiveness and business development is to be complemented by measures related to labour market policy, education and training.

The Commission proposes a common strategic framework for all structural funds to increase effectiveness and ensure that objectives of Europe 2020 are translated into investment priorities. Operationally, a partnership contract will be concluded with each member state with commitments at the national and regional level on alignment with the Europe 2020 strategy. Annual reports will need to be prepared by the member states on the implementation. Energy efficiency and renewable energies are referred to explicitly among the main target areas of cohesion policy spending. New conditionality provisions are to be introduced to ensure the delivery of Europe 2020 objectives. A pool of resources amounting to 5 percent of the cohesion budget will be set aside and allocated in the midterm review to the member states and regions meeting the milestones for the achievement of Europe 2020 targets and objectives.

The Commission's proposal very clearly identifies climate action as a key challenge facing the EU, requiring urgent engagement as reflected in the Europe 2020 strategy. The emphasis is understandably placed on the ways in which the building of a low-carbon economy will enhance Europe's competitiveness and create new and greener jobs. Investing in energy efficiency is meant to increase overall productivity and contribute to solving energy security and energy poverty issues. The role of the EU budget is identified as that of a stimulus for national spending as well as an instrument offering long-term predictability for private investors. "The most promising areas include the renovation of buildings, innovation in transport and the deployment of new technologies, such as smart grids as well as renewable energy".

The Commission proposes to increase mainstreaming of climate action to at least 20 percent, "with contribution from different policies, subject to impact assessment evidence". This is meant to include investments, which are not related to climate policy but which can have a significant climate component. Mainstreaming should lead to "climate-proofing" of investments.

In practice, mainstreaming will mean the requirement of identifying programmes, which promote climate action or energy efficiency. The setting up of clear benchmarks, monitoring and reporting rules is proposed by the Commission for all relevant EU policy instruments. The tracking and monitoring process will be integrated in the overall methodology for measuring performance of EU programmes. "All relevant instruments will include a specific objective related to climate, accompanied by a result indicator". Three categories of expenditure baskets are proposed by the Commission on the basis of the OECD's "Rio markers": climate related only (100%); significantly climate related (40%); and not climate related (0%).

In the policy fiches accompanying the main proposal, the Commission mentions the 20 percent mainstreaming of climate change-related expenditure only with respect to the competitiveness and transition regions. For convergence regions, there is only a general reference that energy efficiency and renewable energy objectives will be promoted. However, there is no specific quantifiable objective set. It thefore needs to be clarified whether the 20 percent mainstreaming will also apply fully to convergence regons and cohesion fund spending.

## Making mainstreaming work

Mainstreaming is meant to be the main instrument for, among others, reorienting a sizeable part of the EU cohesion budget towards climate-related expenditure. It is the first time that the Commission puts forward a quantifiable objective for climate change-related expenditure. It has the merit of preserving the existing framework of cohesion policy, which avoids the difficulty of setting up new instruments with their institutional mechanisms. At the same time, its effectiveness will depend on the rigidity of the Commission's benchmarks as well as the tracking and monitoring process.

The mainstreaming approach has been practiced with respect to environmental spending since 1990s with mixed results. This means that for the approach to have the expected income, it needs to be strongly anchored in the regulatory framework. A clear and transparent methodology needs to be elaborated.

Given the differences between the individual member state situations, the Commission and the member state concerned should have a substantial leeway to negotiate tailor-made ways of implementing mainstreaming in the programming process and in the partnership contract.

In the horizontal provisions, applicable to all member states, the Commission should limit itself to naming priorities for funding. The list it currently mentions in the various parts of its documents includes renovation of buildings, smart grids, renewable energy supplies and innovation in transport, although when referring to mainstreaming the Commission only mentions energy efficiency and renewable energy.

The Commission intends to rely in its mainstreaming approach on the OECD methodology of "Rio markers". One of the advantages of this methodology is that it could link activities at the EU and international levels. At the same time, the methodology is imprecise and provides not more than an indication of the policy objective, as the OECD itself admits. It does not cover actual outcomes of intervention. This means that the Commission should elaborate further the "Rio markers" methodology to make sure it serves better the objective of measuring the way climate-related targets are met.

The "Rio markers" methodology makes clear that only a proportion of activities, rather than their full value, may be seen as actually targetting the Convention. This means that an energy project of USD 50 million may have an integrated climate change mitigation component of USD 10 million[5].

In the definition of the climate change-related marker, the OECD goes beyond the Commission's short list of activities focused on energy efficiency and renewable energy. Such activities qualify if they contribute "to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration". This means that project related to Carbon Capture and Storage would also be eligible for inclusion as climate change-related. In addition, the OECD speaks of a separate category of activities focused on the "integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research". This might be of particular interest to Poland as it attempts to marry climate policy with its modernisation strategy.

When it comes to the emission reductons in the energy, transport, industry and agricultural sectors, the OECD speaks not only about renewable but also "new" forms of energy, measures to improve the energy efficiency, "or demand side management". In addition, the "Rio markers" mention the "development, transfer and promotion of technologies and know-how as well as building of capacities that control, reduce or prevent anthropogenic emissions of GHGs, in particular in waste management, transport, energy, agriculture and industry", "protection and enhancement of sinks and reservoirs of GHGs through sustainable forest management, afforestation and reforestation, rehabilitation of areas affected by drought and desertification" or "preparation of national inventories of greenhouse gases (emissions by sources and removals by sinks); climate change related policy and economic analysis and instruments, including national plans to mitigate climate change; development of climate-change-related legislation; climate technology needs surveys and assessments; institutional capacity building" and finally "education, training and public awareness related to climate change" and "climate-change-related research and monitoring as well as impact and vulnerability assessments". Generally, the broad approach implied in the OECD's "Rio markers" is very much recommenda-

5. „Measuring aid targeting the objectives of the Rio Conventions", OECD, May 2009.

ble as a starting point for the negotiation of individual partnership contracts.

The proposal of the Commission does not address climate change and environmental implications of the overall bulk of cohesion policy expenditure. It is clear that projects related to infrastructure can be implemented in ways, which will have a varying impact on the EU's fight with climate change. This means that infrastructural projects need to be tested from the point of view of whether they reduce to the utmost minimum the climate change impact. In order to implement climate-proofing, precise climate change selection criteria need to be elaborated with elements of carbon-screening. Projects need to be monitored for their climate change impact also during the course of their implementation to ensure that their carbon content is not increased.

In the Commission's proposal, no mention is made of the strategically important spending on adaptation, which is important from the point of view of meeting broader environmental objectives, such as protecting biodiversity.

The new and strengthened conditionality measures and performance incentives should also be tailored towards maximising the impact on reducing carbon-intensity of the economy. Provisions to this extent will need to be included in the forthcoming regulatory framework documents. There should be specific criteria defined leading to either withdrawal of funding or allocation of additional resources, depending on the case.

Finally, the optimal result from the point of view of the climate policy can only be achieved when mainstreaming is combined with climate-proofing aimed at reducing the high-carbon content of EU-financed projects in cohesion policy. Such a dual-track approach will be much more difficult to negotiate but should be on the Commission's list of priorities when it prepares the ground for the forthcoming discussion about cohesion policy regulations.

European Climate Foundation

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demosEUROPA
Centre for European Strategy Foundation

A. Idźkowskiego St 4/6
00-442 Warsaw, Poland

e-mail: demoseuropa@demoseuropa.eu
http: www.demoseuropa.eu

phone: +48 22 401 70 26
fax: +48 22 401 70 29