EU cash in climate clash

How the EU funding plans are shaping up to fuel climate change

Comparative analysis of the 2007-2013 structural funding allocations for energy and transport in the new member states

CEE bankwatch network

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Executive summary

Between 2007 and 2013, the European Union will invest 177 billion euros in the ten central and eastern European member states (CEE-10) via the Structural Funds and the Cohesion Fund. In the same period when these investments will take place, Europe will have to accomplish serious cuts in its greenhouse gas emissions in order to achieve the recently agreed targets of 20-30% reduction by 2020 and 60-80% by 2050.

Worryingly, the four countries that have so far received by far the most EU funds per capita – Spain, Portugal, Greece, and Ireland – have also witnessed by far the greatest increases in greenhouse gas emissions in the EU, mainly due to increased demand for energy and transport growth.

If the EU wants to tackle climate change effectively, it must make sure that the same scenario is not repeated in central and eastern Europe. On the contrary, the EU funds for the new member states have to contribute to the opposite: reducing greenhouse gas emissions while improving standards of living.

There is a broad consensus today that it is technically and economically possible to achieve both and that the benefits of doing so greatly outweigh the costs. An overwhelming share of fossil-fuel based emissions can be eliminated through maximising energy efficiency, making a large switch to renewable energy, and curbing the rampant growth of road transport.

EU funds should be used to help CEE countries move to a climate-friendly development path

EU funds should be used to help CEE countries reconcile their right to develop with their obligation to cut emissions by moving to a climate-friendly development path. If the 2007-2013 funding is systematically directed towards energy efficiency, renewable energy and sustainable mobility, CEE countries can avoid repeating the scenario experienced by countries like Spain. This could also gradually ease the current opposition in some CEE countries to ambitious EU climate change commitments.

The plans for the use of the 2007-2013 funds – the National Strategic Reference Frameworks (NSRF) and the Operational Programmes (OP) – are currently under negotiation between the member states and the European Commission.

CEE Bankwatch Network and Friends of the Earth Europe have conducted a comparative analysis of the final draft versions of the OPs and NSRFs submitted by the CEE-10 countries to the European Commission, which are the subject of current negotiations. The analysis compares the financial allocations for energy efficiency, renewable energy and transport, the most important allocations in terms of the evolution of greenhouse gas emissions.

EU funds for energy efficiency and renewable energy (EE and RE)

Our analysis of the draft OPs has discovered that EE and RE have each been allocated only one per cent of all EU funds –-1.8 billion euros –- in the CEE-10 countries taken as whole.

Poland and Hungary score the worst, having allocated just around one per cent of their EU funds for EE and RE together. In particular, their EE allocations are extremely low in comparison with the other countries. Lithuania has allocated the biggest share – 5.4% –- focused largely on EE. A chart and a table showing full comparison of the EE and RE allocations are contained in this report.

No single country is planning to support EE and RE comprehensively in all key sectors, namely industry, the power sector, and housing.

Energy efficiency and renewable energy have each been allocated only 1% of all EU funds in the CEE region

Apart from low direct allocations, there are also few if any efforts to horizontally integrate energy-saving measures and renewable technologies into other EU-funded projects.

The low level and narrow scope of the planned funding support for EE and RE strikingly contradicts the increased prominence they have received within the EU cohesion policy. EE and RE are stated as one of the 12 priority areas for EU funded investments in the Community Strategic Guidelines for Cohesion 2007-2013.

The allocations for EE and RE are weak also given the fact that the energy intensity of CEE-10 economies is on average 50% higher than in the EU-15 and that there is large but unused renewable energy potential. Funding support could help overcome the barriers in the form of market imperfections and lack of capital to cover initial investment costs, which have so far tended to inhibit EE and RE investments.

EU funds for transport

Altogether, 47 billion euros – 27% of the total EU funding – has been allocated for transport in the CEE-10 countries' draft OPs. Out of this, 53% – 25 billion euros – is to be spent on roads and motorways. 30% – 14 billion euros – has been allocated for railways and only 10% – 4.8 billion euros – has been allocated for urban and regional public transport. Approximately one billion euros is to be invested in maritime and river ports, while inland waterways, airports and inter-modal transport infrastructure should each receive around half a billion euros.

For public urban transport, Romania, Slovakia, Lithuania, and Slovenia score the worst, planning almost no or only very meagre EU funding support for this sector. In relative terms, most EU funds for this sector have been allocated in Hungary and Estonia.

Roads and motorways have been rewarded with the highest shares of EU funds in Poland and Slo-

vakia. Charts and a table with a full comparison of the transport allocations are provided in the report.

The implications of transport funding for greenhouse gas emissions are not addressed at all in the new member states' OPs for transport. The Strategic Environmental Assessments carried out for the OPs have resulted in barely any improvements in this respect.

Given the high climate impacts and external costs of car and freight transport, the road bias that our analysis reveals in the CEE funding plans is unjustified. Trains and urban public transport produce on average three times less CO_2 emissions per passenger-kilometre than private cars. For freight transport, trains cause more than five times less emissions per tonne-kilometre than trucks.

Railways and public transport have suffered from chronic under-investment in the CEE countries in the past 15 years, making them less competitive vis-a-vis car and truck transport. It was expected that this new round of EU funding would help to reverse this situation.

Conclusion

Due to the meagre support for energy efficiency and renewables and the bias in favour of roads and motorways at the expense of public transport, the CEE countries are set to miss the opportunity to embark on climate-friendly development. Instead, the EU funding threatens to lock them into high-emission infrastructure for many years.

CEE countries could be locked into high-emission infrastructure for many years

However, the European Commission has the final say. CEE Bankwatch Network and Friends of the Earth Europe are calling on the Commission to revise the funding plans in accordance with the EU's climate objectives before it approves them in the coming weeks and months.

Unless the funding plans are still significantly changed, seven more years and billions of euros may be lost to unsustainable and energy-intensive development, undermining future EU action on climate change. CEE countries would then have to take much steeper and costlier emission cuts later.

Alarmingly, Poland plans a 31% increase in its greenhouse gas emissions by 2013 compared to 2003 according to the indicators in its NSRF. A plan for using EU funds directly against common EU climate goals must be rejected by the European Commission. It should be reworked and thoroughly "decarbonised" before the EU billions for Poland are released.

Beyond the current negotiations of the NSRFs and OPs, the EU cohesion policy requires a major rethink in order to play a more supportive role in realising the EU's climate objectives. The following recommendations should be considered:

- earmark minimum funding shares for the key climate-friendly investments such as energy efficiency, renewables and public transport
- put serious restrictions on the financing of climate-damaging investments
- establish ambitious energy efficiency criteria for all financed projects and ensure the systematic integration of energy-saving measures as well as renewable technologies into all projects where feasible.

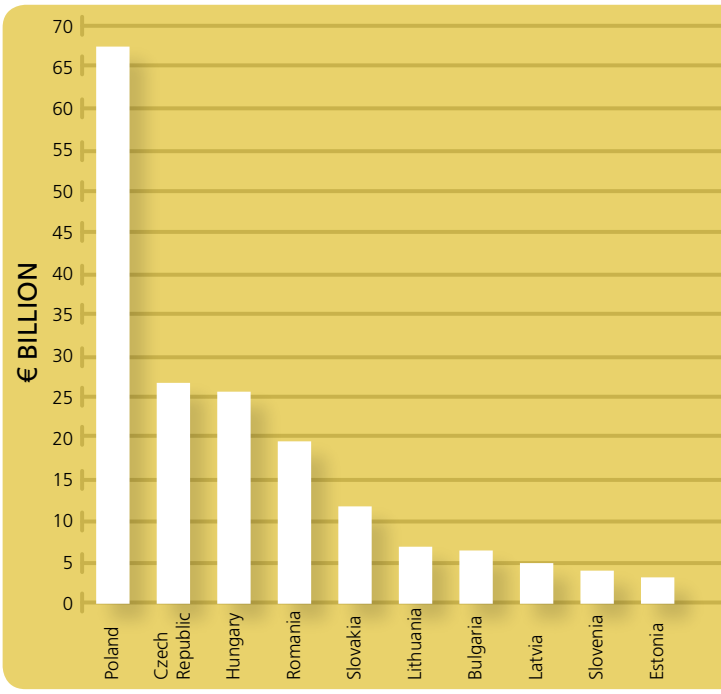
1)

EU funds and climate

1.1) A history not to be repeated

Big EU money is just about to roll into central and eastern Europe. Over the 2007-2013 period, the European Union is set to distribute 347 billion euros[1] for projects financed through its Structural Funds and the Cohesion Fund (SF/CF) – more than a third of its overall budget for the seven years. Just over half of this amount – 177 billion euros – will go to the ten central and eastern European member states (CEE-10), including the latest newcomers Bulgaria and Romania, with the aim of closing the gap between the richer old member states and the poorer newcomers from behind the former Iron Curtain. The annual funds for CEE countries will increase by two and half times compared to the previous 2004-2006 funding period. In per capita terms, the CEE countries will receive significantly more than what the Marshall Plan entailed after World War II.

Chart 1 EU funding allocations for CEE-10 countries for 2007-2013



Source of data: European Commission

[1] All financial figures throughout this report are in current prices and do not include national co-financing.

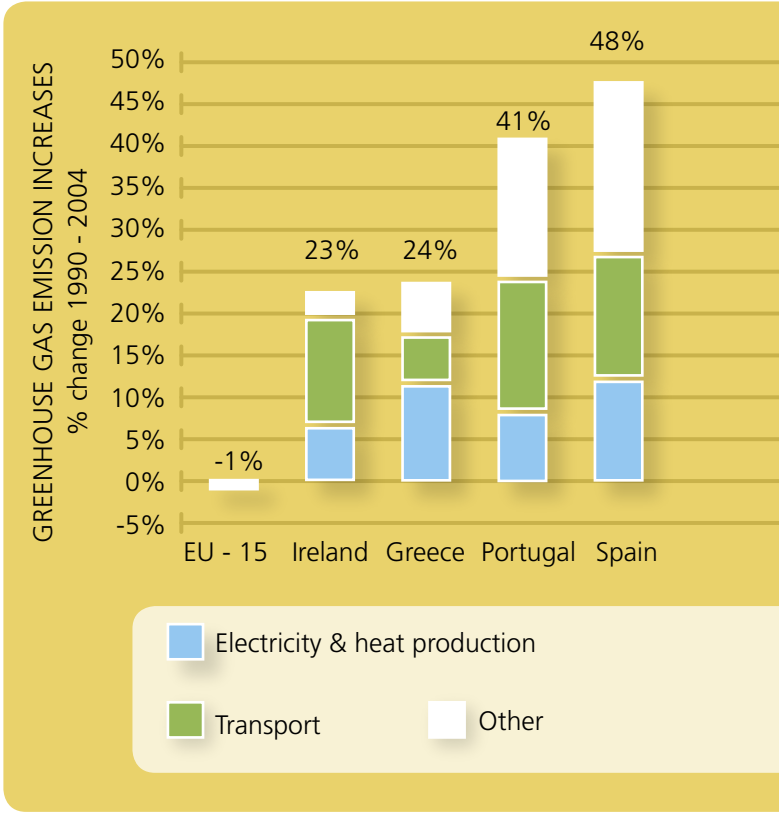
In the same period when these investments are taking place, Europe will have to make an unprecedented effort to combat climate change. The EU will finally have to start achieving serious cuts of its greenhouse gas emissions in order to have a chance of reaching its declared objective to limit global warming to 2°C above pre-industrial levels. By 2008-2012, the EU has to fulfil its Kyoto obligations to reduce emissions by on average 8% compared to 1990. Then it has to quickly work towards achieving the recently endorsed cuts of 20-30% by 2020 with a view to reducing emissions by 60-80% by 2050, compared to 1990 levels.[2]

The four countries which have so far received by far the most EU funds per capita have also witnessed by far the greatest increases in greenhouse gas emissions in the EU

Worryingly, however, Chart 2 below shows that the two EU policies may be at odds with each other. EU funding has so far undermined – rather than supported – EU climate objectives. The four "cohesion countries" (Greece, Ireland, Portugal and Spain), which have so far received by far the most EU funds per capita, have also witnessed by far the greatest increases in greenhouse gas emissions in the EU. Spanish emissions have soared by almost 50% in only 15 years. In all four countries, most of the increases can be attributed to growing transport and production of electricity and heat.

If the EU wants to fulfil its obligations to tackle climate change, it must make sure that the "Spanish scenario" is not repeated in central and eastern Europe

Chart 2 Greenhouse gas emissions of the "cohesion countries" in comparison with the total for EU-15 (% change 1990-2004)



Source of data: "Annual European Community greenhouse gas inventory 1990–2004 and inventory report 2006. Submission to the UNFCCC Secretariat." European Environment Agency Technical report No 6/2006.

While the blame cannot be wholly pinned on EU funding, EU money has undoubtedly strongly contributed to the trend of rising emissions by financing road infrastructure that has generated more traffic and by supporting an energy-intensive economic growth model. The huge financial amounts from the EU, and the development strategies linked to them, do crucially shape the long-term development of the beneficiary countries.

[2] The target of 30% by 2020 has been endorsed by the EU Heads of States at their Spring Summit 2007 and is conditioned on other developed countries making comparable commitments. Until that happens, the EU made a somewhat lower unilateral commitment to achieve at least a 20% reduction by 2020. European Council Conclusions, 9 March 2007.

If the EU wants to fulfil its obligations to tackle climate change, it must make sure that the "Spanish scenario" is not repeated in central and eastern Europe. On the contrary, EU funds for the new member states have to contribute to the opposite: reducing greenhouse gas emissions while improving standards of living. Reconciling these two goals will not be easy at all. But there is a broad consensus today that it is technically and economically possible, and the benefits of doing so greatly outweigh the costs.

1.2) Climate-friendly development

Low-emission development is technically feasible. The necessary reductions in fossil-fuel-based emissions can be achieved through utilising a combination of concrete, available options in the power, industry, housing and transport sectors.

Two key options which alone can eliminate an overwhelming share of fossil-fuel based emissions from the power, industry and housing sectors in the coming decades are:

- **energy efficiency** – with huge possible gains across all the sectors allowing enterprises, households and public institutions both to save money and reduce emissions
- **renewable energy** – whose installed capacity is growing as dramatically as the costs of wind, solar, biomass, and geothermal energy are falling.

As for the **transport sector**, which is the fastest-growing source of emissions, this can be only partly decarbonised through technological improvements in the car fuel efficiency or alternative fuels. More substantial transport emission cuts will have to come especially through demand management measures – by curbing transport growth, shifting traffic to environment-friendly modes, and promoting alternatives to cars. Otherwise fuel emission improvements will be offset by the ever-growing road transport volumes.

Reducing climate emissions is technically and economically possible and the benefits of doing so greatly outweigh the costs

Climate change abatement is also economically feasible. The Stern Report on the economics of climate change estimated the cost of reducing emissions at around 1% of global GDP by 2050 – much less than the cost of the damaging impacts of unabated climate change estimated by Stern at 5% to 20% of global GDP by the same year.[3] Early, decisive action to cut emissions will avoid having to make bigger and costlier cuts later.

Pursuit of energy efficiency and renewable energy can alone eliminate an overwhelming share of fossil-fuel based emissions

What is more, a sustainable low-carbon development focusing on the above-described options will not only prevent climate change but will also bring other benefits for Europe:

- Energy savings will cut household bills and improve the competitiveness of companies by decreasing their production costs;
- New technology sectors will create hundreds of thousands of new jobs and support balanced regional development through decentralising the power sector;
- Reduced dependence on oil and gas imports will increase energy security;
- The devastating environmental and social impacts of fossil fuel extraction will be reduced;
- Lower air pollution as a side-effect of CO_2 re-

[3] *Stern Review: Economics of Climate Change.* HM Treasury, October 2006.

ductions will deliver major health benefits;[4]

- Countries taking early action to deploy climate-friendly technologies will gain a competitive edge over others who make the move later.

1.3) CEE countries: rights and obligations

In CEE countries, greenhouse gas emissions declined substantially due to economic restructuring in the 1990s. Since 2002, however, they have been on the rise again, and are projected to increase by 11% between 2004 and 2010.[5] "The new member states seem to be repeating the experience of Ireland, Portugal and Spain," the European Environment Agency has observed. While almost all CEE countries are likely to meet their Kyoto goals, such developments could jeopardise any efforts for necessarily bigger post-Kyoto emission cuts after 2012. Indeed, as has been seen recently, the strongest resistance to EU emission reduction targets for 2020 and related energy policies is coming from some CEE member states.

CEE countries have a right to develop, but they also have an obligation – like the rest of the EU and the world – to reduce their emissions to a level compatible with limiting climate change to 2°C. EU funding is a unique chance to help these countries reconcile their right to develop with their obligation to cut emissions by moving on a low-carbon development path. CEE countries can avoid repeating the "Spanish scenario" if EU funds in 2007-2013 are systematically directed towards energy efficiency, renewable energy, sustainable mobility and eco-friendly technologies. This is also the way to gradually ease the current CEE opposition to ambitious EU climate change commitments.

1.4) Towards a climate-friendly cohesion policy

Structural and Cohesion Funds – the EU's main common financial muscles to promote its goals – have a central role to play in realising the EU climate strategy. The strategy will only succeed if it is implemented through joint and consistent effort at all levels, from the local through regional and national to European, and if it is backed up by adequate financial resources. The funds should be used to help the beneficiary member states move towards a sustainable and climate-friendly pattern of development. For this, however, EU cohesion policy itself needs to be "decarbonised".

CEE countries can avoid repeating the "Spanish scenario" if EU funds are systematically directed towards energy efficiency, renewable energy, and sustainable mobility

The most important novelty in the EU funding framework for 2007-2013 is the so-called "Lisbonisation" of cohesion policy: 60% of the funds under the "Convergence" objective and 75% under the "Regional Competitiveness and Employment" objective are "earmarked" for the new Lisbon Agenda (Growth and Jobs) investments.[6]

To make EU funding climate-friendly, a comparable effort would have to be made to earmark high minimum funding shares for the key low-carbon investments such as energy efficiency, renewables and public transport. Equally, financed projects would have to comply with ambitious energy efficiency criteria. Energy-saving measures as well as renewable technologies would have to be systematically integrated into all projects where feasible – from those including any investments in buildings to those involving any purchase and

[4] According to the European Commission, reducing CO2 emissions by 22% by 2020 will reduce impacts on human health amounting to benefits of between €27.8bn and €48.1bn. "Impact Assessment - Limiting Global Climate Change to 2 degrees Celsius The way ahead for 2020 and beyond." European Commission staff working document, January 2007.
[5] Projection for the 2004 newcomers (EU-10) without Romania and Bulgaria. *Greenhouse gas emission trends and projections in Europe 2006.* European Environment Agency report no. 9/2006.

use of electrical appliances. Finally, the financing of climate-damaging investments would have to be restricted. Today, although energy efficiency, renewables, clean urban transport and railways are included on the list of the promoted Lisbon Agenda investments, so are motorways and airports that heavily contribute to increasing greenhouse gas emissions.

1.5) Funding plans for 2007-2013

The actual climate change implications of the 2007-2013 Structural and Cohesion Funds will depend on what exactly will be funded in each member state. This is defined in the funding plans: the more general National Strategic Reference Frameworks (NSRF) and the sector-specific Operational Programmes (OP).

The plans have by now been drafted by the member states and submitted to the European Commission, which, however, has the final say on the plans and has the right to ask for modifications before approving them. In 2007, the Commission has to review and approve nearly 450 OPs submitted by all the EU's beneficiary member states and regions. The negotiations with each member state will continue for a few more weeks or months after the publication of this report.[7]

This is a moment for the Commission to transform its climate rhetoric into action and ensure that the funding plans support rather than contradict the EU climate objectives. The funding plans should include robust, systematic and well-targeted support for energy efficiency, renewable energy and public transport. Symbolic support here and there will not suffice.

1.6) Structure of the analysis

CEE Bankwatch Network and Friends of the Earth Europe have monitored the use of EU funds in central and eastern Europe since 2000. Our member organisations in CEE countries have been scrutinising the preparation of the 2007-2013 funding plans and proposing specific changes in them. At the same time, we have been conducting a continuously updated comparative analysis of financial allocations for energy and transport in the consecutive draft versions of the OPs.

The Commission has to ensure that the funding plans support rather than contradict the EU climate objectives

This report is based on a comparative analysis of the financial allocations of EU funds as stated in the final draft versions of the OPs and NSRFs for 2007-2013 submitted by the CEE-10 countries to the European Commission. These are thus not yet the final allocations, but the final proposals from the side of the member states, still to be negotiated with the Commission.

The report focuses on allocations for energy efficiency, renewable energy and transport, which will be the most important for the evolution of greenhouse gas emissions. Chapter 2 deals with energy efficiency and renewable energy, while Chapter 3 with transport. Both chapters begin with a description of existing EU policies and the situation of the given sector in the CEE countries, followed by the actual analysis of the allocations and concluding with recommendations for revising the OPs.

The actual findings about the allocations are contained in sections 2.3 for energy and 3.4 - 3.7 for transport.

[6] The new member states are formally excluded from the binding earmarking provision but they are strongly encouraged by the Commission to "Lisbonise" their funding plans as much as possible anyway.
[7] The actual state of approvals of the NSRFs and OPs can be seen on the Commission's scoreboard: http://ec.europa.eu/regional_policy/newsroom/pdf/scoreboard020407.pdf

2)

EU funds for energy efficiency and renewable energy

2.1) EU policies: energy and cohesion

Energy efficiency (EE) and renewable energy (RE) are today at the top of the European political agenda. It is now generally recognised that Europe needs to fundamentally overhaul the way it produces and consumes energy in the upcoming years in order to address its growing dependency on imports of fossil fuels, rising energy prices, and above all the threat of catastrophic climate change. EE and RE are two important responses to these combined geopolitical, economic, and environmental challenges.

The European Union has already committed itself to:

- increase the share of RE in primary energy consumption from 6% to 12% by 2010 and to 20% by 2020;[8]
- take actions to reduce energy consumption by 20% by 2020, compared to the business-as-usual scenario, which should save 100 billion euros a year and create one million jobs in Europe.[9]

The EU has also adopted a number of further specific directives and targets in areas such as the energy performance of buildings, the efficiency

[8] White Paper on Renewable Energies of 1997; European Council Conclusions, 9 March 2007.
[9] Energy Efficiency Action Plan of 2006; European Council Conclusions, 9 March 2007.

of appliances, energy end-use efficiency, biomass energy, and cogeneration.[10] Further legislation is in the making, including increased energy requirements on office and street lighting and lighting in private households.

EE and RE have received increased prominence within the EU cohesion policy

As a result of these developments, EE and RE have also received increased prominence within the EU cohesion policy, at least on the level of rhetoric and EU documents. It is recognised that investments in EE and RE are particularly beneficial for regional development and can provide a boost to local economies. At the same time, it is at the regional and local levels that most of the gains in EE and RE generation can be made.

EE and RE are emphasised as one of the 12 priority areas for SF/CF investments by the **Community Strategic Guidelines** for Cohesion 2007-2013.[11] Therefore, although there are no minimum thresholds for funding allocations, it could be theoretically expected that approximately one-twelfth, i.e. 8.5%, of total EU funding allocations will be invested into this priority area.

The possibility for the use of EU funds for EE/RE has also been enhanced by their addition into the scope of assistance from the **Cohesion Fund**, which was previously eligible only for transport and environment infrastructure.[12] The importance of EE and RE within the cohesion policy has been further reinforced by the so-called **Lisbonisation of cohesion policy**. In 2007-2013, for the first time, a majority of the funds will have to be earmarked for the promotion of the Lisbon agenda. RE, EE and co-generation are included among the promoted Lisbon categories of expenditure.[13]

Furthermore, the new EU **Energy Efficiency Action Plan** includes "Spurring energy efficiency in the new Member States" as one of the 10 priority actions: "The Commission will encourage European Regional Policy to deploy its national and regional programmes to promote more intensive investment to improve energy efficiency, in particular in the new Member States, including in the multi-family and social housing sectors."

Similarly, the **Communication on the Share of Renewable Energy in the EU** called for the mobilisation of all EU financial instruments to allocate adequate resources for boosting RE: "The Union's future financial framework for 2007-2013 should have explicit provisions so that clean and efficient energy concepts are a visible part of the Union's priorities, strategies and commitments. It is the opportunity for the enlarged Union to express its political determination to change course and direct its efforts towards sustainable energy, by allocating adequate resources to boost its goals in this field. The Community's main financial instruments – notably the future structural and cohesion funds, the financial support made available through the Community's international cooperation programmes, and the Common Agricultural Policy – all need to be mobilised."[14]

However, all this emphasis on the use of EU funds for EE and RE in 2007-2013 is only poorly reflected in the actual draft spending plans, as section 2.3 below shows.

[10] E.g. Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources, Directive 2002/91/EC on energy performance of buildings, Directive 2004/8/EC on the promotion of cogeneration, Directive 2006/32/EC on energy end-use efficiency and energy services
[11] COM (2006) 386, chapter 4.1.3.
[12] See Article 2(b) of the Cohesion Fund regulation 1084/2006.
[13] See Article 9(3) and Annex IV of the general regulation for cohesion policy 1083/2006, where RE and EE activities are listed as categories 39-43.
[14] COM(2004) 366. Communication on the Share of Renewable Energy in the EU.

2.2) Benefits and potential of energy savings and renewables in CEE countries

It takes on average 50% more energy to produce a unit of GDP in the CEE-10 member states than it does in the EU-15 (see Chart 3). Thus the potential for cost-effective energy savings in the region is huge. High energy intensity increases production costs and thus undermines the competitiveness of the CEE countries within the Single Market. EU funds could help secure massive energy savings across the economy and thus reduce energy bills for businesses but also households, schools, hospitals, and other public buildings.

The high-rise residential buildings in CEE towns and cities are notoriously wasteful with heat and in urgent need of refurbishment

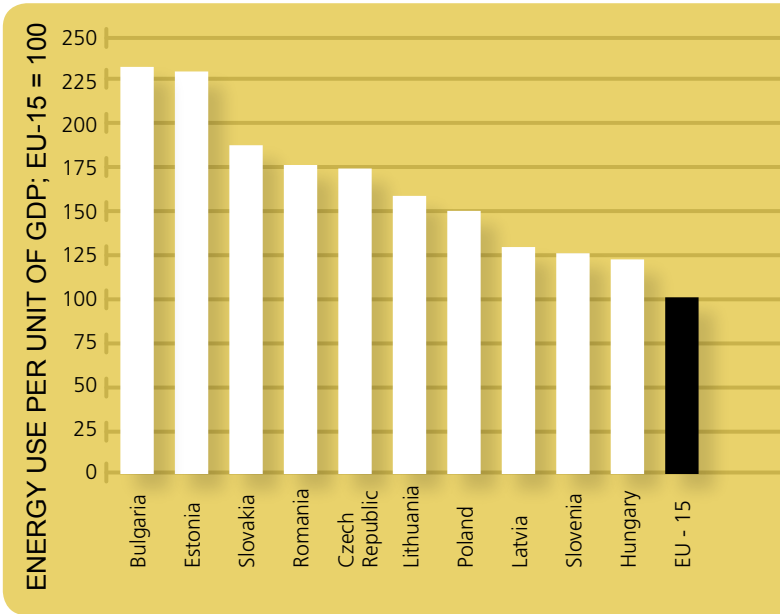
Amongst other areas, EU funds should be invested into **energy-efficient refurbishment of buildings** and modernisation of district heating installations. The high-rise residential buildings in CEE towns and cities are notoriously wasteful with heat and in urgent need of refurbishment. The delaying of reconstruction works will worsen the condition of the houses and only lead to increased expenditures in future. With energy prices increasing, the impact on the residents of high-rise building estates – often the poorer members of society – could be dramatic if the buildings are not renovated to make them more energy efficient. The total costs of energy-efficient refurbishment of the high-rise building stock in Europe have been estimated at 25 billion euros.[15] The energy savings would offset the renovation costs, but without the initial investment none of this can happen.

District heating is commonplace in CEE countries, with around 40% of households connected in comparison with 10% in the old member states.

District heating is commonplace in CEE countries, with around 40% of households connected in comparison with 10% in the old member states

Old coal or oil boilers can be converted to modern, efficient gas or biomass boilers. There is also large untapped potential for the integration of solar thermal and geothermal energy into district heating systems. Many district heating installations can also be redesigned for the combined generation of heat and electricity.

Chart 3 Energy intensity in CEE-10 countries relative to the EU-15 (2003)



Note: GDP adjusted for purchasing power parity.
Source: Eurostat 2006

EU funds should also be used to unlock the large but unused **renewable energy** potential of the CEE countries for both electricity and heating. The costs of wind, solar, biomass, and geothermal energy have been steadily falling at a very fast pace in recent years, mainly due to the learning effect and economies of scale. These trends are predicted to continue in the future, while the costs of fossil fuels and uranium are set to increase.

[15] *High-rise: changing the view.* Summary report of Energy Efficiency in the Refurbishment of High-rise Residential Buildings. Association for the Conservation of Energy, 2006.

In the new member states, the share of RE in electricity consumption is only 5.7% (without Romania and Bulgaria) as opposed to 14.7% in the old EU-15.[16] There is also a gap in technological development and competitiveness. Those Western countries which first embraced RE power are now the main exporters of RE technologies

The costs of RE are predicted to continue falling in the future, while the costs of fossil fuels and uranium are set to increase

and are heavily profiting from the worldwide RE boom (e.g. Denmark in the wind power sector). CEE countries are in danger of missing the train of technological innovation unless they make an extra effort to catch up.

All CEE countries have adopted national targets for increasing their share of RE. Almost all of them have already been using SF/CF for the promotion of RE in the 2004-2006 period to some extent. In 2007-2013, funding support for RE – alongside other essential support mechanisms such as feed-in tariffs – should be greatly enhanced and improved.

The **role of public funds in supporting EE and RE** is first of all to reward their environmental benefits and low external costs in comparison with conventional power sources (which have received

Those countries which first embraced RE power are now the main exporters of RE technologies and are heavily profiting from the global RE boom

large subsidies for many years). Second, it helps overcome those barriers in the shape of various persistent market imperfections and lack of capital to cover initial investment costs on the side of municipalities, households, enterprises or public institutions. The funding support should act primarily as a well targeted catalyst stimulating the private sector, municipalities and building owners to invest more actively in increasing the energy efficiency of their buildings or companies and installing RE technologies for heat or electricity.

A decentralised manner of energy production will bring more balanced regional development than a few big power centres

In the RE sector, the aim of the funding should be to establish a decentralised system of power generation with small and medium-scale, locally sourced and environmentally friendly RE facilities spread across the territory of each country. A decentralised manner of energy production will bring more balanced regional development than a few big power centres. EU funds can support the installation of RE sources in municipalities, enterprises, public buildings as well as in private households.

However, EU funding support for large-scale co-firing of biomass in coal-based power plants should be avoided because it could stimulate the overuse of natural resources and fuel price increases at the expense of small- and medium-scale biomass energy producers.

2.3) Comparison of 2007-2013 allocations

Overall, 3.6 billion euros – only 2.1% of all EU funds for CEE-10 countries – is to be invested into EE and RE in 2007-2013. This funding stands to be shared approximately 50-50 between EE and RE.

[16] *Greenhouse gas emission trends and projections in Europe 2006.* European Environment Agency report no. 9/2006.

A comparative view reveals major differences between the funding plans of the individual countries (See Chart 4 and Table 1 below). Only Lithuania can be said to be taking EE and RE seriously in its draft plans, by allocating 5.4% of all its EU funds for them, though the support is restricted only to a few EE/RE sectors. Slovenia follows with 3.8%.

On the other side of the spectrum, support for EE and RE is most neglected in Poland and Hungary, which have allocated just around 1% of their total EU funding for them. In particular, the EE allocations – at around 0.5% – are extremely low in these two countries in comparison with the others. Moreover, there is a concern in Poland that a significant part of the allocations for biomass will in fact be used for simple co-firing of biomass in large coal-based thermal plants (see section 2.2 above). It is worth noting in this context that Poland and Hungary are the two member states which have recently most resisted adopting any binding EU targets for reducing greenhouse gas emissions by 2020.

As Table 1 demonstrates, in no country will the planned support for EE and RE be really comprehensive. Each country neglects some of the key EE/RE sectors. For example, only six out of the ten CEE countries are planning some measures for increasing EE in enterprises; only five in the power sector; and only three in the housing sector. This shows that much more can be done, if there is political will and pressure from the European Commission.

The low level and narrow scope of the planned investments clearly fall short of the sort of action needed to realise the EU's strategic energy objectives over the next seven years and makes a mockery of the EU policies and commitments described above.

2.4) Horizontal integration and quality of support

Apart from direct support for EE and RE, it is equally important to ensure that EE and RE are, as a horizontal priority, integrated as much as possible into all other measures and activities to be financed by EU funds. For example, any investments of EU funds in buildings and housing should systematically integrate energy-saving measures and RE technologies. The measures for the modernisation of universities in Slovakia's OP Research and Development, which explicitly include significant improvements in the energy efficiency of the university buildings, may serve as a positive but unfortunately rather exceptional example in this respect. Overall, there are few signs in the OPs that EE and RE will always be considered as a htorizontal priority for all EU funded investments.

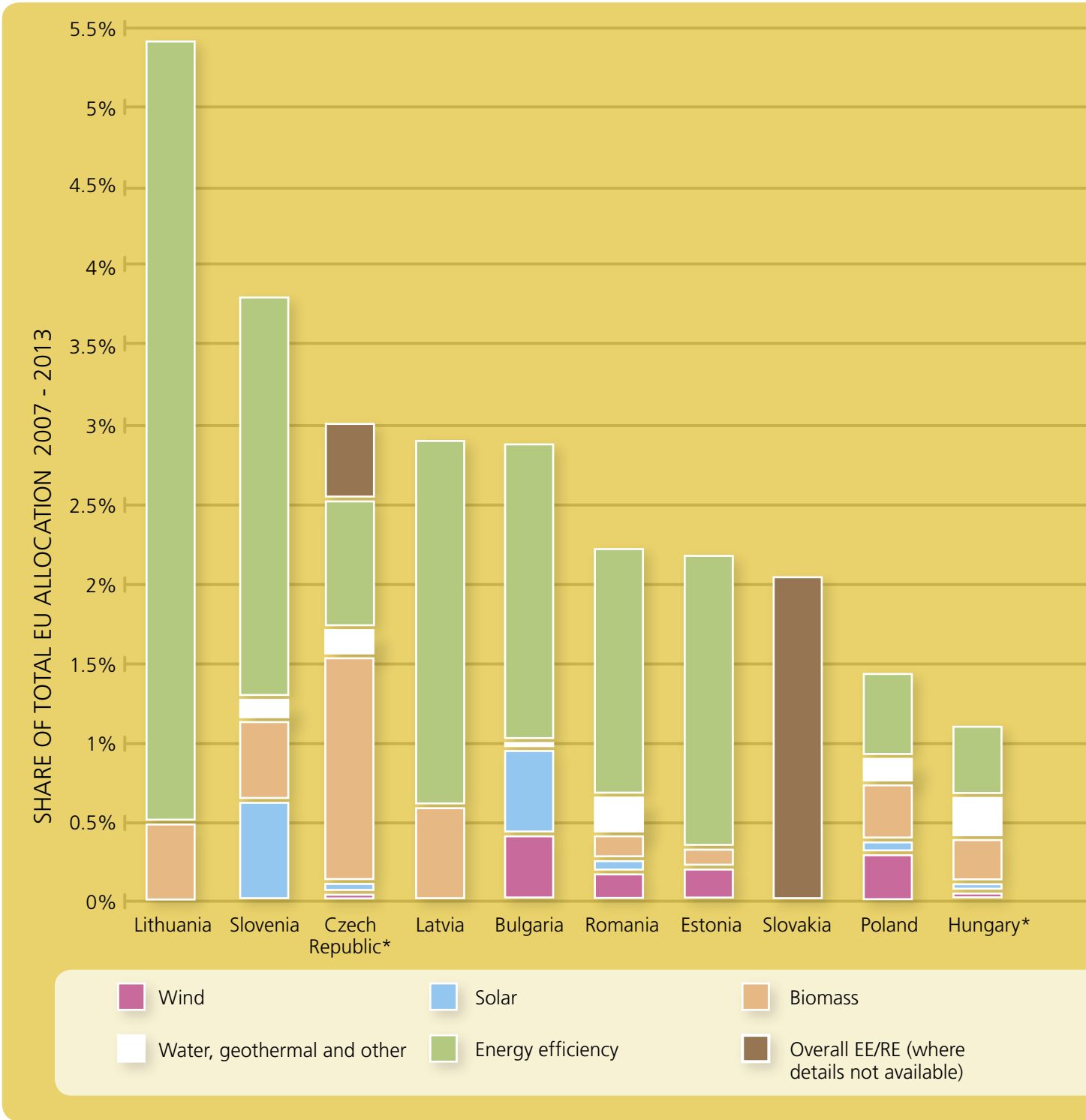
Any investments in buildings and housing should integrate energy-saving measures and RE technologies

The quality of the funding measures is also as important as the quantity. It is essential that EE and RE measures are thoughtfully prepared, well designed and carefully targeted in order to maximise the added value of the funding support.

2.5) Recommendations

During the negotiations with the member states on their 2007-2013 Operational Programmes, the European Commission should insist on increased and broader support for EE and RE as well as more systematic horizontal integration of EE and RE technologies in all projects where feasible. The OPs of the countries planning the weakest and narrowest support for EE and RE, namely Poland and Hungary, require the biggest changes. The

Chart 4 Share of allocations for energy efficiency and renewables in total EU funding in CEE countries for 2007-2013



Note: Based on financial allocations in the final draft Operational Programmes submitted by CEE countries to the European Commission. Only measures whose primary aim is explicitly energy efficiency and renewable energy are counted. What is not included:
1) Other measures that may indirectly also contribute to decreasing energy intensity, e.g. research and development or public transport
2) Measures for energy security or reduction of NOx and SOx emissions from fossil fuel sources as planned for example in Poland, Romania and Lithuania. These measures do not directly and explicitly aim to contribute to energy efficiency or renewable energy production.
* In case of the Czech Republic and Hungary, there may be additional EE/RE measures in their regional OPs, which are not included in this analysis. However, they are unlikely to significantly change these countries' overall EE/RE allocations. In the case of Poland, the EE/RE measures in its regional OPs are included in the analysis.

Table 1: Comparison of measures and allocations for energy efficiency and renewables in the Operational Programmes of the CEE-10 countries for 2007-2013

	Energy efficiency					Renewable energy					No. of EE/RE measures	EE+RE share in total EU funds	Overall
	industry / enterprises	power sector	housing	public buildings	district heating	Wind	solar	bio-mass	geo-thermal	hydro			
Lithuania	✗	✓	✗	✓	✓	✗	✗	✓	✗	✗	1 priority with 2 measures in OP Cohesion and 1 measure in OP Economic Infrastructure	5.4%	☺
Slovenia	✓	✗	✓	±	✗	✗	✓	✓	✓	✗	1 priority with 4 measures in OP Environment & Infrastructure	3.8%	☺
Czech Republic	✓	✗	✗	✓	✗	✓	✓	✓	✓	✓	1 priority with 3 measures in OP Environment and 1 priority in OP Enterprise	3.0%	😐
Latvia	✗	✗	✓	±	✓	✗	✗	✓	✗	✗	2 measures with 5 sub-measures in OP Infrastructure & Services	2.9%	😐
Bulgaria	✓	✗	±	±	✗	✓	✓	✗	±	✗	1 measure in OP Competitiveness; sub-measures in OP Regional Development	2.9%	😐
Romania	✓	✓	✗	✗	✓	✓	✓	✓	✓	✓	1 priority with 2 measures in OP Competitiveness and partially 1 priority in OP Environment	2.2%	😐
Estonia	✗	✗	✓	✗	✓	✓	✗	✓	✗	✗	1 priority with 3 measures in OP Environment	2.2%	😐
Slovakia	✓	✓	✗	✗	±	✗	✓	✓	✓	✓	1 measure in OP Competitiveness and 1 sub-measure in OP Environment	2.1%	☹
Poland	✗	✓	✗	±	±	✓	✓	✓	✓	✓	1 priority with 5 measures in OP Environment & Infrastructure	1.4%	☹
Hungary	✓	✗	✗	✓	✓	±	✓	✓	✓	✓	2 priorities in OP Environment	1.1%	☹

✓ included ± partly included ✗ not included

countries with more comprehensive support can serve as relative examples.

The European Commission should demand the following in each member state:

- At least **5% of all EU funds** should be allocated for EE and RE priorities
- The measures should be **well-prepared, carefully targeted and include clear environmental criteria** for RE investments
- **Inclusion of the following measures** should be considered in the OPs of each member state:
  - promoting **energy efficiency and renewable energies in industry** and the use of waste heat in enterprises
  - energy-efficient refurbishment of the **housing sector** – renovation of high-rise residential buildings and social housing with energy saving measures and systematic integration of RE technologies
  - energy-efficient refurbishment of **public buildings** (hospitals, schools, state and municipal buildings, etc.) with systematic integration of RE technologies
  - energy audits, EE measures and installation of RE technologies in **private households**
  - renovation of municipal **district heating systems**, replacing fossil fuels with RE sources and cogeneration
  - renovation of **public lighting** systems

The process of selecting projects should include clearly set energy efficiency criteria

  - savings in the **energy sector** (distribution of heat and electricity)
  - support for **renewable energy investments**: renovation of existing energy sources and installation of new RE systems; including biomass, wind, solar, geothermal and small hydro
  - increasing the share of **cogeneration**, producing heat and electricity simultaneously
  - **training** for businesses and craftsmen, **networking** between municipalities, awareness **campaigns**

- Energy-saving measures and RE technologies should be **systematically integrated into other priorities** and measures in all ERDF and Cohesion Fund OPs – for example any investments in buildings and housing
- The **project selection process** under all ERDF and Cohesion Fund OPs should include clearly set energy efficiency criteria
- **Large-scale co-firing** of biomass in coal-based power plants should not be supported with EU funds
- Each member state should **demonstrate how it will reach its EE and RE targets** through EU, national or other funding, using appropriate indicators.

3)

EU funds for transport

3.1) Transport and climate change

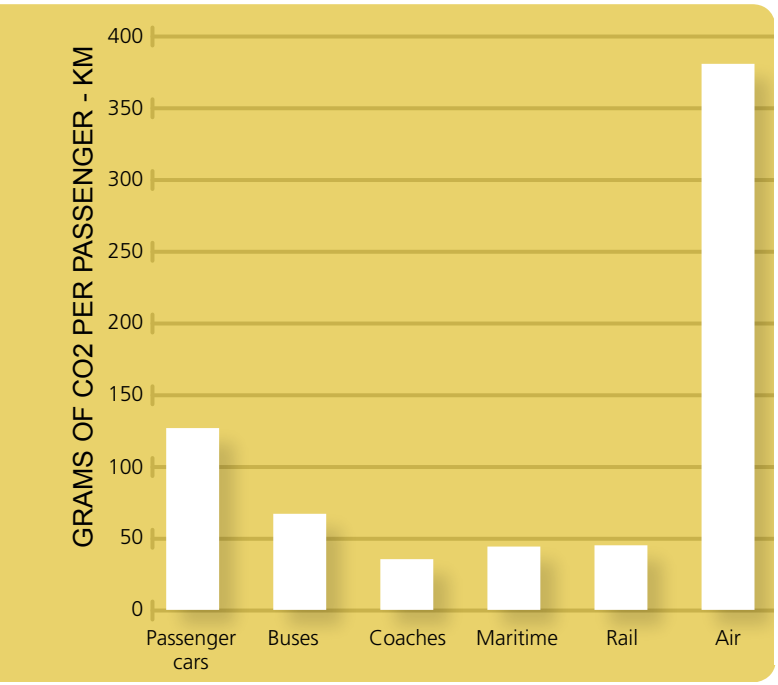
As a result of increasing car and truck traffic in the CEE countries, transport has been the fastest growing source of their greenhouse gas emissions. While their overall greenhouse gas emissions have fallen, the transport CO_2 emissions of the CEE-10 countries soared by 40% in the 1995-2004 period. Transport is thus the main cause behind overall emissions rising now again, thus threatening any future emission reduction goals.[17] EU funding should help stop this trend in the 2007-2013 period rather than exacerbate it.

Transport emissions can be cut through a combination of increased fuel efficiency and alternative fuels, road pricing, modal shift, modernisation of public transport, better urban planning and soft measures inducing behavioural changes. A recent study has developed scenarios for reducing UK transport's greenhouse gas emissions by 39%-52% by 2030 and by 61%-72% by 2050.[18] Another study, also for UK transport's climate emissions, has shown that it should even be possible to achieve a 60% reduction by 2030.[19]

A UK study has shown how to achieve a 60% reduction of transport emissions by 2030

[17] European Environment Agency online dataservice.
[18] "Living within a carbon budget." Report for Friends of the Earth and The Cooperative Bank. Tyndall Centre, Manchester University, July 2006.
[19] "Looking over the horizon. Visioning and Backcasting for UK Transport Policy" Bartlett School of Planning, University College London and Halcrow Group for Department for Transport, January 2006.

Chart 5 CO_2 emissions per passenger-kilometre in EU-15



Note: Air transport emissions are multiplied by a factor of 2.7 based on the UN Intergovernmental Panel on Climate Change (IPCC), which estimated total greenhouse effects from aviation to be 2-4 times greater than that of the CO_2 emissions alone due to NOx emissions and contrails (still not accounting for cirrus cloud formation).[20]
Source of data: "Overall energy efficiency and specific CO_2 emissions for passenger and freight transport." European Environment Agency Indicator Factsheet TERM 2003 27 EEA 31.

In the EU-15, trains produce about three times less CO_2 emissions per passenger-kilometre than passenger cars (see Chart 5). For freight transport, trains cause more than five times less emissions per tonne-kilometre than trucks.[21]

As for public transport, buses and trams consume on average three times less energy and produce three times less CO_2 emissions per passenger-kilometre than private cars.[22] A study in 50 cities worldwide brought evidence that passenger transport in cities with a high population density and a high share of public transport consumes several times less energy per inhabitant compared with less compact cities relying on private car. The study also proved that energy consumption was reduced in cities where the share of public transport increased over several years, and vice versa.[23]

Similar to energy, the cleanest form of transport is the one we do not have to use

While transport emissions can be partly curbed through increased fuel efficiency and alternative fuels, this will not be sufficient even to offset the projected growth in transport volumes, which is faster than the expected efficiency gains. Therefore, to achieve the necessary emission cuts, transport should also be increasingly shifted to low-emission modes (e.g. from road to rail) and the overall transport intensity of the economy – volume of transport per unit of GDP – should be reduced. Similar to energy, the cleanest form of transport is the one we do not have to use.

Where EU funds can help is mainly by modernising public transport and railways in order to provide an alternative to growing car and truck transport, by supporting cycling infrastructure, traffic management and inter-modal infrastructure shifting freight from road to rail. At the same time, EU funds should not aggravate the negative trends by prioritising high-emission road and air transport.

3.2) EU policies: transport and cohesion

EU transport policy is not renowned for its consistency. On 9 June 2006, the Council of Ministers adopted the renewed EU **Sustainable Development Strategy** which, among other goals, sets the following objectives for transport in Europe:

[20] *Aviation and the Global Atmosphere: A Special Report of the Intergovernmental Panel on Climate Change.* IPCC, 1999.
[21] "Overall energy efficiency and specific CO_2 emissions for passenger and freight transport." European Environment Agency Indicator Factsheet TERM 2003 27 EEA 31.
[22] "The role of public transport to reduce greenhouse gas emissions and improve energy efficiency." UITP, 2006.
[23] Mobility in Cities Database project. UITP, 2005.

- **Decoupling economic growth** and the demand for transport with the aim of reducing environmental impacts
- Achieving a balanced **shift towards environment friendly transport modes** to bring about a sustainable transport and mobility system
- Modernising the EU framework for **public passenger transport** services to encourage improved efficiency and performance by 2010.

Less than two weeks later, on 22 June 2006, the European Commission adopted a **Mid-term Review of the EU Transport White Paper**[24], which goes precisely in the opposite direction: it waters down the two objectives of decoupling GDP growth from transport and of modal shift, which were enshrined in the original White Paper.

There is certainly a stronger emphasis on clean urban transport in the 2007-2013 policy framework than in the previous periods

Whatever the status of the objectives, the EU cohesion policy simply promotes investment in all types of transport infrastructure. But there is certainly a stronger emphasis on "clean urban transport" in the 2007-2013 framework than in the previous periods:

- The new **Cohesion Fund regulation** clearly incorporates clean urban transport and public transport as well as other environmentally-friendly transport investments into the scope of assistance from the Fund, besides the Trans-European Transport Networks (TEN-T).[25]
- Through the above-mentioned **Lisbonisation of cohesion policy**, clean urban transport as well as railways, multimodal transport and intelligent transport systems are included among the promoted Lisbon categories of expenditure, for which the majority of the funds should be earmarked in the 2007-2013 period. However, all large-scale transport infrastructures, including motorways and airports, are also on the Lisbon list.[26]
- The **Community Strategic Guidelines for Cohesion** 2007-2013 include the promotion of "environmentally sustainable transport networks, particularly in urban areas" among the priorities for funding. "This includes public transport facilities (including park-and-ride infrastructures), mobility plans, ring roads, increasing safety at road junctions, soft traffic (cycle lanes, pedestrian tracks)." Again, however, all other major transport infrastructure is also among the priorities.[27]
- The Communication **"Cohesion Policy and cities: the urban contribution to growth and jobs in the regions"** stresses the need to "improve the affordability, efficiency and effectiveness of public transport, as well as linking the different transport modes" and to "promote the use of cycling, walking and other alternative and 'soft' forms of transport" as part of an integrated transport strategy for urban areas.[28]
- Finally, the Commission is expected to publish a **Green Paper on urban transport** in 2007 to identify for the first time how the EU can contribute to clean and efficient urban transport.

However, the strong emphasis on the use of EU funds for clean urban transport in 2007-2013 is only poorly reflected in the actual draft spending plans, as section 3.4 below shows.

[24] COM(2006) 314 final. "Keep Europe moving - Sustainable mobility for our continent. Mid-term review of the European Commission's 2001 Transport White Paper."
[25] See Article 2(b) of the Cohesion Fund regulation 1084/2006.
[26] See Article 9(3) and Annex IV of the general regulation for cohesion policy 1083/2006.
[27] COM 2006(386), chapter 4.1.1.
[28] COM 2006(385), chapter 3.1.

3.3) Benefits and potential of public passenger transport in CEE countries

Apart from lower energy consumption and greenhouse gas emissions, public transport has numerous other advantages compared with private cars. Modernising public transport is an essential policy to avoid congestion, accidents, noise, pollution, and land take resulting from individual car transport.

The number of seriously injured and killed people is 10-20 times lower for collective transport than for cars

Public transport is safer: the number of seriously injured and killed people per driven passenger-kilometres is 10-20 times lower for collective transport than for cars. In cities, public transport uses valuable urban space much more economically than cars: transport from home to work by a personal car, including parking, requires 20 times more space-time than by bus or tram. In addition, cars lead to congestions that annually bring about billions of euros worth of damage to Europe's economy and are responsible for the fact that air quality and noise standards are not being met in many cities. The development of public transport, the limiting of private cars and the creation of pedestrian zones have been shown to reinvigorate cities and increase sales in shops.[29]

Public transport is not only important for cities and suburban commuters. For rural areas, it is a necessary precondition of their social and economic viability. The mobility of large categories of people who do not have access to a car – usually lower-income or older people, women, children – is totally dependent on public transport.

In Budapest, municipal subsidies to the public transport company were reduced by two thirds between 1990 and 2000

In CEE countries, there has been a massive exodus of freight and passengers from rail and public transport to road over the last 15 years. Car ownership has exploded and public transport use has decreased considerably. A big part of the explanation for this development lies in the under-financing of public transport and railways in the CEE countries and the prioritisation of investments for road infrastructure.[30] In other words, the switch from rail and public transport to cars and trucks has been subsidised by public funds.

In the 1990s, funding for public transport was cut back in the cities of central and eastern Europe. In Budapest, municipal subsidies to the public transport company were reduced by two thirds between 1990 and 2000.[31] The result has been higher fares and ageing vehicles, encouraging a switch to private car use.

In the German city of Freiburg, 60% of all trips are made using public transport, cycling or walking

The number of cars per person is already higher in the Czech Republic, Lithuania and Slovenia than in one of Europe's richest countries, Denmark.[32] This proves, at the same time, that increased wealth does not need to be correlated with increased number of cars. In the German city of Freiburg, 60% of all trips are made using public

[29] *Better mobility in urban areas.* UITP, 2003.
[30] *Paving the way for EU enlargement.* European Environment Agency, 2002.
[31] *Heading down dead ends: Transport sector financing in Central and Eastern Europe.* CEE Bankwatch Network, 2004.
[32] In 2004, there were 373 cars per 1000 inhabitants in the Czech Republic, 384 in Lithuania and 456 in Slovenia, compared to 354 in Denmark. Eurostat, 2006: "Nearly one car per two inhabitants in the EU25 in 2004".

transport, cycling or walking – thanks to careful urban development planning, high-quality service and pricing.

Although the share of passengers transported by public transport in the CEE countries has declined in favour of personal cars, it is still considerably higher than in the old EU member states. There are still extensive public transport systems in CEE cities and most citizens continue to use them in their daily lives. [33]

For example, there are fifty tram systems in the CEE region, which is the highest concentration in Europe. Most CEE cities do have plans to modernise public transport networks and rolling stock but have been limited by the lack of funds. Therefore, many of them have been waiting for the support from EU funds and the realisation of their projects is now dependent on it happening.[34] If the support is not realised, the quality and attractiveness of public transport services are likely to deteriorate, resulting in further declines in the share of public transport and shifts towards private car use.

Similar to public passenger transport, the share of freight transported by rail is also still significantly higher in CEE countries, despite the big declines in favour of roads. In this respect, the transport sector of CEE countries is still closer to the ideal of a balanced modal split. In 2001, the EU White Paper on Transport demanded: "Every effort must therefore be made to convince the [CEE countries] of the need to maintain the railways' share of the freight market at a high level, with a target of around 35% for 2010."

The large amount of EU funds for CEE countries is an opportunity to halt the decline of their public transport and railways. For that there needs to be strong, systematic and well-targeted investment to modernise the infrastructure, rolling stock and services of urban, suburban and regional public transport and rail transport throughout the CEE countries. Furthermore, EU funds should also target cycling, park-and-ride and bike-and-ride schemes, traffic management, and inter-modal infrastructure shifting freight from road to rail.

3.4) Breakdown of transport allocations for 2007-2013

Altogether, 47 billion euros of EU funding – 27% of the total – is allocated for transport in the Operational Programmes of the CEE-10 countries for 2007-2013. This includes transport measures in all national OPs – not only specific OPs for Transport – but it does not include the additional transport allocations in the regional OPs in Poland, Czech Republic and Hungary.[35]

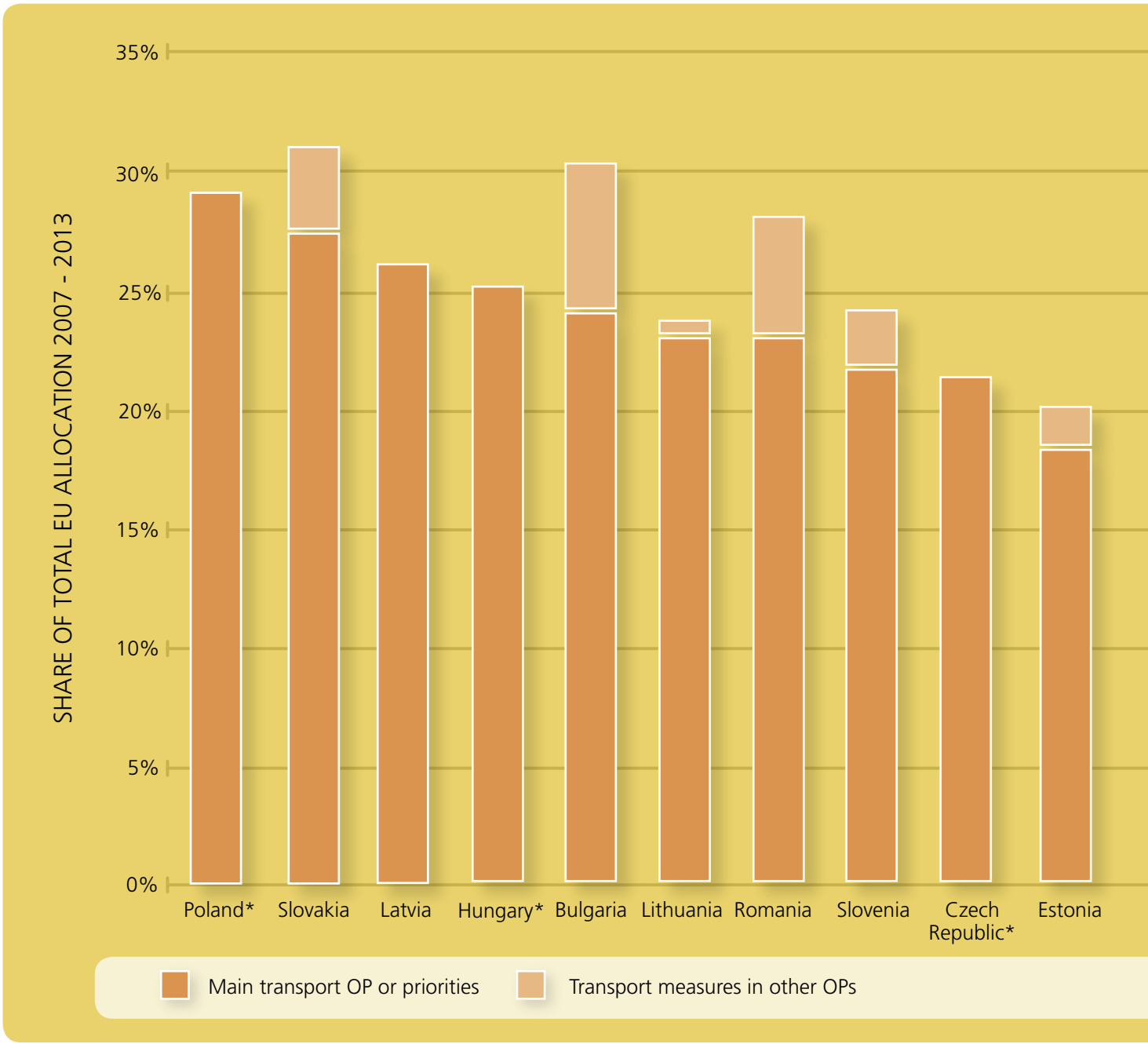
Chart 6 shows the share of EU funds to be spent on transport in each country – ranging from more than 30% in Poland, Slovakia and Bulgaria to 20% in Estonia.

47 billion euros of EU funding – 27% of the total – has been allocated for transport in the CEE-10 region

Chart 7 shows the breakdown of the total 47 billion euros for transport according to different

[33] In 2000 even those EU cities with the highest share of public transport boardings per year and per person (Stuttgart 484 and Vienna 472) showed weaker performance than the capitals of the new member states (Prague 907; Budapest 815). Source: UITP -The Millennium Cities Database.
[34] *Tram Systems in Central and Eastern Europe: Achievements and future needs.* UITP, 2006.
[35] Most of the transport funding in each country will take place through a specific OP for transport or through the main transport priorities in one broader OP. In a number of countries, there are some transport measures also in other national OPs such as OP Environment or OP Regional Development. These transport allocations are included in this analysis. However, Poland, Czech Republic and Hungary, will also distribute a minority share of their EU funds through regional OPs. This regional funding is not included in this analysis and the charts. However, it can be estimated that the inclusion of regional transport allocations would raise the total transport allocation in CEE-10 countries to between 50 and 55 billion euros – around 30% of all EU funding.

Chart 6 Share of transport in total EU funding in CEE-10 countries for 2007-2013

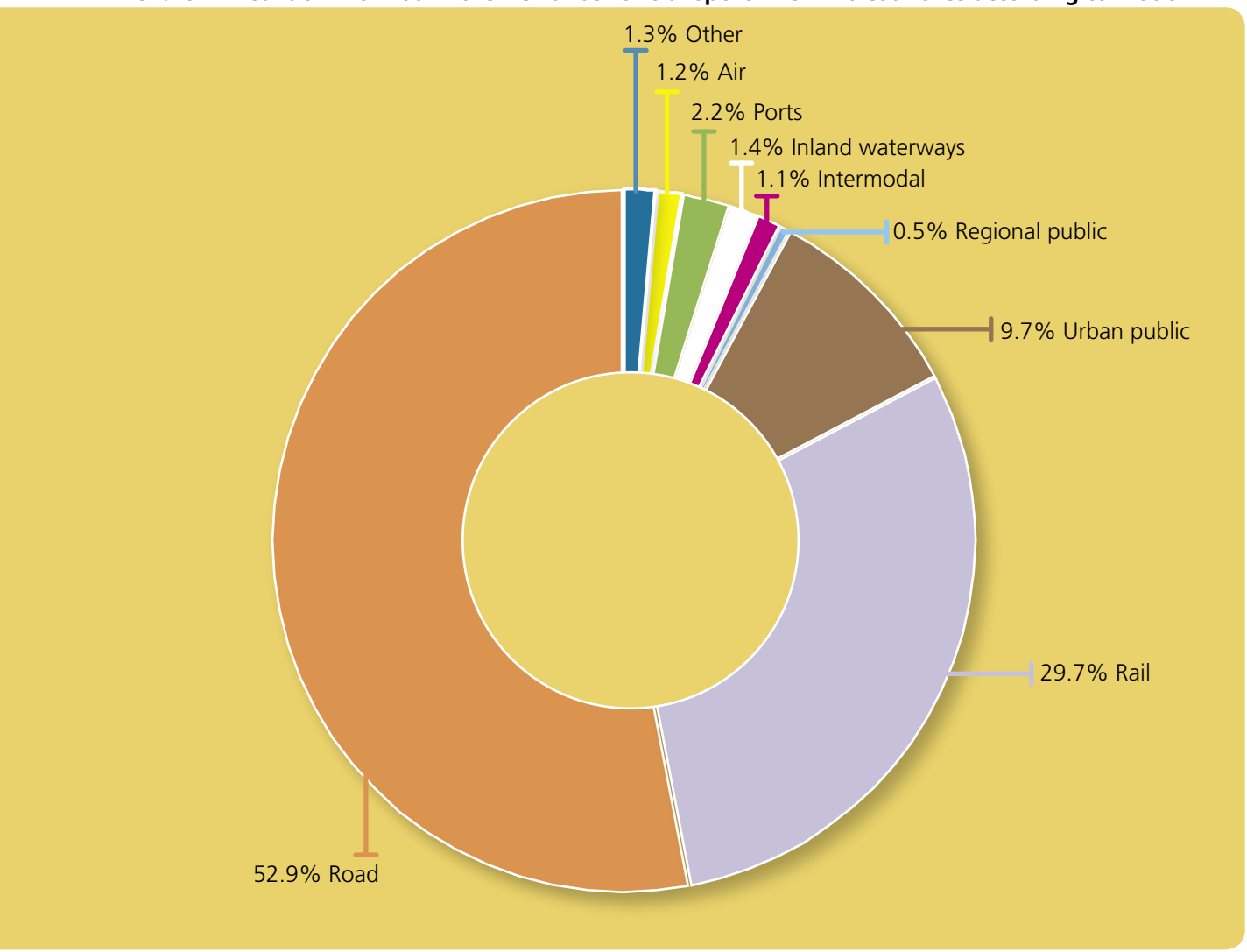


Note: Based on financial allocations in the final draft Operational Programmes submitted by CEE countries to the European Commission.
* For Poland, Czech Republic and Hungary, there is additional funding for transport in their regional OPs, not included in the graph.

modes. Taken together, the CEE countries plan to invest much more EU funds into roads and motorways than into any other transport mode: 25 billion euros, or more than half of all transport funding. The share of roads would likely be even higher if the additional transport funding through the regional OPs was factored in.

Less than one-third of the transport funding (14 billion euros) is to be invested in railway infrastructure and only one-tenth (4.8 billion euros) in public passenger transport, mainly in cities.

Chart 7 Breakdown of 2007-2013 EU funds for transport in CEE-10 countries according to mode



Note: Based on financial allocations in the final draft Operational Programmes submitted by CEE countries to the European Commission. Additional funding for transport in regional OPs in Poland, Czech Republic and Hungary is not included in the graph.

Approximately one billion euros is to be invested in maritime and river ports, while inland waterways, airports and inter-modal transport infrastructure look set to each receive around half a billion euros.

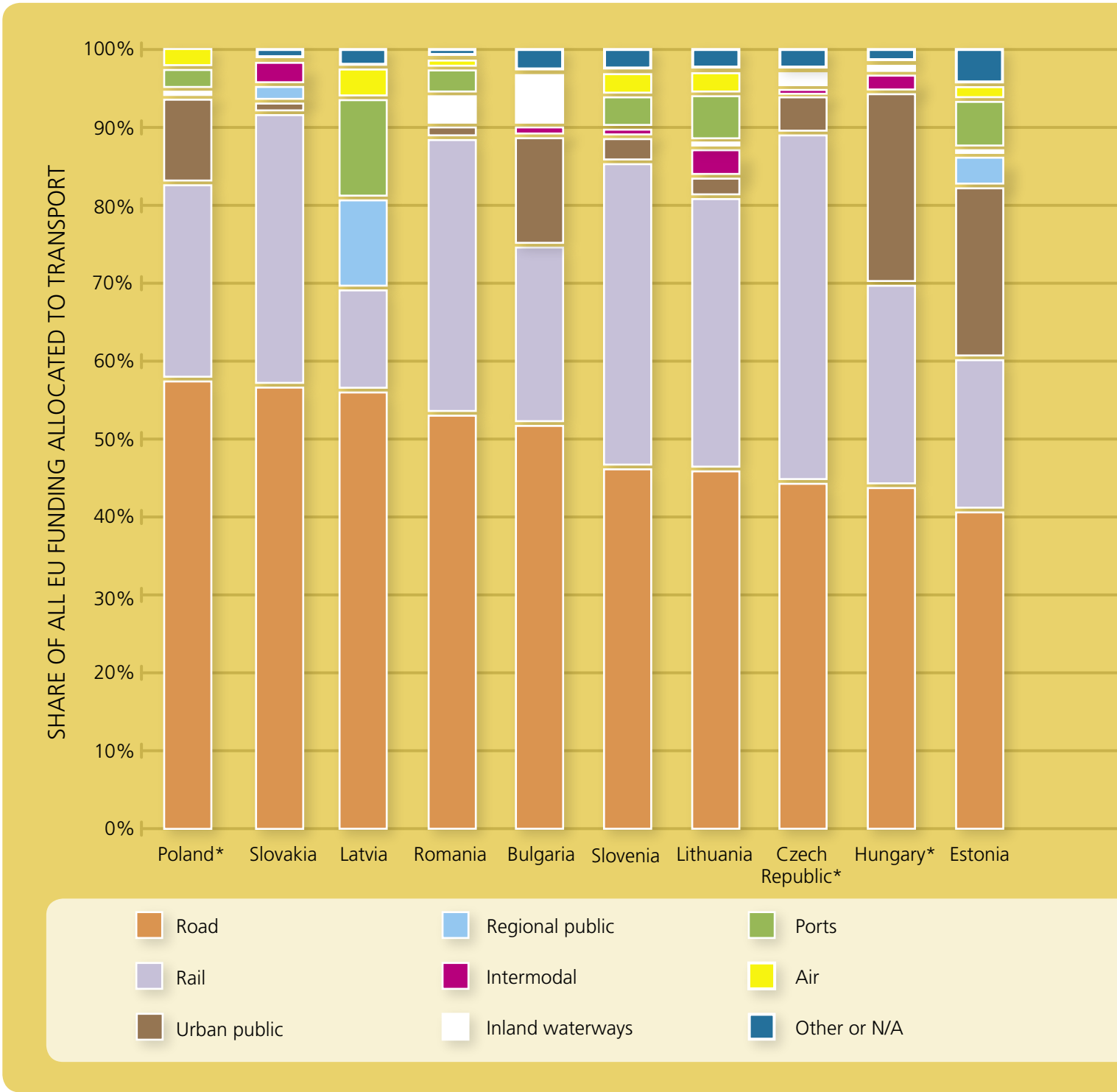
3.5) Allocations for public transport: inconsistent and insufficient

Chart 8 reveals major differences between the planned distribution of the transport funding in individual countries. While railways have received some, though varying, allocations in all countries, the support for urban and regional public transport is extremely incoherent across the countries. Hence the special focus on it in this report.

Romania, Slovakia, Lithuania, and Slovenia score the lowest on public transport, planning almost no or only very meagre EU funding support for this sector.

The relatively biggest EU funding support for public transport is planned in Hungary and Estonia. Estonia is a relatively positive example also in that it sets appropriate objectives and indicators in its

Chart 8 Comparison of EU funding allocations for transport in CEE-10 countries for 2007-2013



Note: Based on financial allocations in the final draft Operational Programmes submitted by CEE countries to the European Commission.
* For Poland, Czech Republic and Hungary, there is additional funding for transport in their regional OPs, not included in the graph.

Table 2 Comparison of measures and allocations for railways and public transport in the Operational Programmes of CEE-10 countries for 2007-2013

	Rail infrastructure	Regional public transport	Urban public transport	Other
Bulgaria	✓ 817km rehabilitated or electrified: € 464m	✗	✓ Sofia metro extension: ~€ 160m OP Regional Development: integrated public transport projects for urban areas: € 136m	OP Regional development: Bicycle tracks € 5m
Czech Republic	✓ 1174km reconstructed or modernised + 12 reconstructed junctions € 2,584m	± In regional OPs	± Prague metro (4.5km extension): € 270m + more in regional OPs	Traffic management in Prague € 30m
Estonia	✓ € 133m	✓ Regional passenger rail & public transport info-systems: € 25m	✓ Electric transport in Tallinn (incl. rolling stock) € 130m + OP Living Environment: urban transport € 22m	
Hungary	✓ 366km newly built or modernised: € 1,641m	± In regional OPs	✓ Metro (Budapest), tram, suburban railway, P&R, B&R (42km of constructed or improved fixed-track network): € 1,546m	
Lithuania	✓ 200km newly built or reconstructed: € 566m	✗	± OP Cohesion Promotion: new, less polluting urban buses: € 41m	
Latvia	✓ € 135m	± Modernisation of Riga suburban commuter railway system (infrastructure, rolling stock, also city trams): € 122m		Traffic safety in municipalities € 27m
Poland	✓ 1,566km modernised: € 4,869m	± In regional OPs	✓ Complex projects for 9 metropolitan areas: infrastructure and rolling stock for urban railway, tram, metro, trolleybus; P&R, B&R (550km of modernised networks): € 2,121m + more in regional OPs	Intelligent transport systems € 88m
Romania	✓ 180km rehabilitated or upgraded + 18 stations modernised: € 1,957m	✗	± OP Regional Development: urban transport rolling stock: € 63m	Traffic safety € 178m Reducing environmental impacts € 12m
Slovakia	✓ 138km modernised: € 1,255m	± Regional passenger railways (new rolling stock – 50 units): € 89m	± OP Environment: eco-optimisation of public transport (10 projects): € 54m	OP Regional development: Bicycle paths € 2m
Slovenia	✓ 428km constructed or modernised: € 398m	✗	± Single ticket project for public transport € 3m OP Regional Development: clean urban transport: € 34m	Bicycle paths € 5m

✓ included ± partly included ✗ not included

Note: Based on financial allocations in the final draft Operational Programmes submitted by CEE countries to the European Commission.

OPs: it aims to preserve the 35% share of public transport in total passenger kilometres, to increase the number of electric rail passengers by 50% and tram and trolleybus passengers by 35% by 2013. Unfortunately, such objectives and indicators are exceptional among the CEE countries.

Even where some support for public transport is envisaged, it is rarely comprehensive. In the Czech Republic, Bulgaria and Hungary, most of the public transport money will go for one single project – extension of the underground metro systems in the capital. In Poland, for example, the urban public transport priority leaves out the funding of environment-friendly new buses despite the fact that 50% of Polish urban buses are older than 10 years[36] as well as the outstanding share of bus transport in Poland compared to other public transport modes.

The planned funding for public urban transport as compared to roads does not match the emphasis given to it in the EU cohesion policy and falls short of the needed investments. Without further major modifications, the funding support for public transport in 2007-2013 will be inconsistent as there will be only a few projects here and there; and it will be insufficient as it will not match the existing needs.

It may be the case that some countries plan to modernise their public transport using their national budget or other financial sources rather than EU funds. The Commission should therefore require that the member states demonstrate how they will finance the necessary modernisation of their public transport from EU, national or other sources.

3.6) Allocations for roads: a gross imbalance

The analysis of allocations shows that instead of using EU funds to systematically improve public transport, the governments are planning to focus on building roads. Taken together, more than a half of all the EU funds for transport in CEE countries is to be invested in roads and motorways. Chart 8 shows that roads and motorways are to receive especially high shares of the funding in Poland and Slovakia (who at the same time plan to spend relatively most for transport in general).

"Building road infrastructure inflates transport demand just as printing money creates inflation"

There is thus a gross imbalance in favour of one of the most climate-damaging transport modes. The road-biased funding plans represent a continuation of the business-as-usual trend in transport financing, which has been repeatedly analysed by CEE Bankwatch Network and is also apparent in the additional EU funding for roads coming from the TEN-T budget and from the European Investment Bank.[37]

A number of studies have undermined the widespread conviction that motorways are essential to regional development and employment creation. The economic impacts can just as often be positive as negative, depending on the specific local circumstances of a given region.[38] Experience around the world also shows that it is not possible in the long term to solve congestion problems by building ever more roads, as they generate ever

[36] „Tabor autobusowy w komunikacji miejskiej - analiza stanu". IGKM (Polish Chamber of Urban Transport), 2006.
[37] *Heading down dead ends: Transport sector financing in Central and Eastern Europe.* CEE Bankwatch Network, 2004. *Lost in Transportation. The European Investment Bank's bias towards road and air transport.* CEE Bankwatch Network, March 2007.
[38] SACTRA, The Standing Advisory Committee on Trunk Road Assessment, Transport and the Economy, DETR, London, 1999.

more car traffic. As the European Federation for Transport and Environment puts it: "Building road infrastructure inflates transport demand just as printing money creates inflation."[39]

Decision-makers also need to take into account the external costs of transport borne by society, such as accidents, damage to health through air pollution and noise, and climate change impacts, which have been estimated at 7.3% of the EU's GDP. These costs to society are almost exclusively caused by road transport (84%) and aviation (14%).[40] If external costs are taken into account, road transport becomes a much less attractive option and the prioritisation of road-building from public resources becomes even less justified.

Road infrastructure in the CEE countries is not in good shape and does require improvements. However, the same can be said for public transport and railways. Decision-makers must therefore strike the right balance, taking into account the costs and benefits of various types of transport, including external costs and environmental impacts. Our analysis of the funding plans shows an unjustified bias in favour of roads and a neglect of public transport. This is certainly not the right balance.

If external costs are taken into account, road transport becomes a much less attractive option

In Poland, for example, where there is the strongest road bias in the funding plans, only 30% of the railway network is in good condition, while the train carriages are "out-dated and worn-out", according to the OP Infrastructure and Environment. The OP further predicts a 25% decrease of railway passenger transport by 2020 and an 18% decrease for rural bus transport system. It merely concludes that "the railway system may lose its competition with both individual car transport, as well as air transport. However, the railway system may continue to play a significant role in urban transportation."[41]

In order to promote a balanced development of the transport sector in the CEE countries that is in line with common commitments to avoid climate change, the EU should spend less on building roads and more on improving alternatives to the car, such as public transport and railways.

3.7) Allocations for other transport modes

Air transport, which has the highest climate impact of all transport modes, is to receive a half a billion euro subsidy from the EU funds in CEE countries. Six out of ten CEE countries plan to use EU funds for air transport – Poland, Romania, Lithuania, Latvia, Estonia, and Slovenia. According to the European Environment Agency, air transport in the EU is already receiving a gigantic subsidy of 27-35 billion euros every year by being exempted from fuel-tax and VAT unlike other transport modes.[42] Given this, any extra public funding for aviation from EU funds is not justifiable.

Air transport in the EU is already receiving a gigantic subsidy by being exempted from fuel-tax and VAT

Inter-modal infrastructure can greatly contribute to shifting freight transport to more environment-friendly modes. However, it remains to be seen to what extent the concrete logistical centres built with EU funds will actually help to move freight

[39] *Transport and Economy: The Myths and the Facts.* European Federation for Transport and Environment (T&E) and Stichting natuur en milieu, 2001.
[40] *External Costs of Transport.* INFRAS Zurich / IWW Karlsruhe, October 2004.
[41] "Operational Programme Infrastructure and Environment", Ministry of Regional Development, Warsaw, 29 November 2006.
[42] *Size, structure and distribution of transport subsidies in Europe.* European Environment Agency Technical Report 3/2007.

from road to rail and to what extent they will simply facilitate and stimulate growing transport volumes for all modes. The relatively highest shares of the funds have been allocated for inter-modal infrastructure in Lithuania, Slovakia and Hungary.

Inland navigation has been given the relatively biggest priority in Bulgaria and Romania, where there are plans to intensify transport on the Danube. Although waterway transport is more climate-friendly than road transport, it usually does not directly compete with road transport, but rather supplements rail transport. Its potential to reduce emissions is therefore quite small. Moreover, it cannot be assumed as a sustainable transport if it has a significant irreversible damage to valuable natural habitats and to the dynamics and functioning of river systems, which would be the case with the removal of bottlenecks on the Danube. Alternatives, including less intrusive vessel design and improving navigation conditions by means other than river engineering, should be prioritised.

3.8) Negligence of climate concerns

The implications of transport funding for greenhouse gas emissions are not addressed at all in the new member states' OPs for transport. In some OPs, the climate objectives are vaguely mentioned or increasing emissions are stated as a risk (without any attempt to adapt the programme appropriately), while in other OPs the issue is not mentioned at all.

The implications of transport funding for greenhouse gas emissions are not addressed at all in the OPs

Climate concerns could have been considered through the Strategic Environmental Assessment (SEA), which had to be carried out for each OP. However, most of the SEAs have been conducted in a hurry and at a too late stage to influence the shape of the OPs. While most of the SEA reports for the transport OPs do mention the risk of greenhouse gas emission increases from road transport, they do not demand any significant changes in the OPs to prevent this risk, such as reallocating the funds towards environment-friendly modes.

3.9) Recommendations

If the European Commission is intent on ensuring balanced and sustainable transport development in the CEE countries, the draft OPs need to be substantially revised. Less should be spent on roads and more on public transport and railways across the CEE region. This pertains especially to the countries with the least balanced transport allocations. If public and environment-friendly forms of transport do not receive a central place in the OPs now, Europe and especially CEE countries will miss a major opportunity to shift towards sustainable transport patterns.

During the negotiations with the member states on their 2007-2013 Operational Programmes, the Commission should demand that they are revised to ensure the following:

- At **least 75% of all transport funding** in each member state should be allocated for environmentally more friendly transport investments:
  - Public **urban** transport systems
  - Integrated **regional and suburban** public transport systems
  - **Railways** (infrastructure and passenger rolling stock)
  - **Inter-modal** infrastructure for shifting freight from road to rail
  - **Bicycle** lanes and paths
  - **Traffic management** systems
- Investments in **public transport** should cover improvements both in infrastructure and **rolling stock** and be part of integrated transport strategies including the enhanced **accessibil-**

ity, frequency, quality, safety and environmental performance of the public transport services

- Funding for roads should be primarily focused on the **rehabilitation of the existing road infrastructure** and safety improvements rather than the building of new roads and motorways
- There should be **no EU funding for air transport** which is a sector that is already greatly privileged by fuel-tax and VAT exemptions
- Each member state should **demonstrate how it will finance the necessary modernisation of its public transport** from EU, national or other sources, using appropriate indicators
- OPs where the **Strategic Environmental Assessment** has not been carried out in a proper manner should be refused for approval.

Conclusion

In the first chapter, it was argued that the 177 billion euros of EU funding for the 2007-2013 period is a unique opportunity to help the CEE-10 countries move on a climate-friendly development path. The countries could avoid repeating the "Spanish scenario" of substantially increasing greenhouse gas emissions if EU funds in 2007-2013 were systematically directed towards energy efficiency, renewable energy and sustainable mobility.

Regrettably, our analysis of the draft plans for the use of the funds shows that the CEE countries are set to miss the opportunity. Instead they threaten to lock the new member states into high-emission infrastructure for many years.

Only 3.6 billion euros – two per cent of all EU funds – are allocated for energy efficiency and renewable energy. There are few, if any, efforts to systematically integrate energy-saving measures and renewable technologies into all suitable projects. In the transport sector, the majority of funds – 25 billion euros – is to be spent on roads and motorways that generate more car and truck traffic and thus more emissions. Only 4.8 billion euros is allocated for urban and regional public transport that emits about three times less CO2 emissions per passenger-kilometre than cars.

The plans do not match the official emphasis and commitments for energy efficiency, renewables and clean urban transport in the EU's policies. Moreover, the planned support for public transport, energy efficiency and renewables is inconsistent in the sense that the levels greatly differ between the individual countries.

The European Commission has the final say on the plans and will negotiate them with each member state for a few more weeks or months. This is a moment for the Commission to transform its climate change rhetoric into action and revise the funding plans accordingly. The funding plans should ensure robust, systematic and well-targeted support for energy efficiency, renewable energy and

public transport. Symbolic support here and there will not suffice.

Given the large volumes of funding that will become available for the CEE countries, the entire development of their economies in the upcoming seven-year period will be fundamentally influenced by the choices being made now in the NSRFs and OPs. Unless the funding plans are significantly changed, seven more years and billions of euros will be lost to unsustainable and energy-intensive development, undermining future EU action on climate change. CEE countries would then have to take much steeper and costlier emission cuts later.

The negotiations on the funding plans are a moment for the Commission to transform its climate rhetoric into action and revise the plans accordingly.

Alarmingly, Poland plans a 31% increase in its greenhouse gas emissions by 2013 compared to 2003 according to the indicators in its NSRF.[43] A plan for using EU funds directly against common EU climate goals must be rejected by the European Commission. Poland, which is to receive almost one-fifth of the total EU funds budget in 2007-2013, should not be allowed just to change or delete the indicator, while keeping its funding plans the same – with the highest funding share for roads and motorways and the second lowest share for energy efficiency among the CEE-10 countries. Instead, the plans should be sent back to Warsaw to be reworked and thoroughly "decarbonised" before the EU billions for Poland are released.

Alarmingly, Poland plans a 31% increase in its greenhouse gas emissions by 2013 as a part of its strategy for using EU funds!

Beyond the current negotiations of the NSRFs and OPs, the EU cohesion policy requires a major rethink in order to play a supportive role in realising the EU climate change strategy. The funds should be used to help the beneficiary member states move towards a sustainable and climate-friendly pattern of development. The so-called "Lisbonisation" of cohesion policy – the earmarking of the majority of the funds for Lisbon Agenda investments – is the most important novelty in the 2007-2013 policy framework. To make EU funding climate-friendly, a comparable effort should be made to earmark high minimum funding shares for the key low-carbon investments such as energy efficiency, renewables and public transport. At the same time, the financing of climate-damaging investments should be seriously restricted. Finally, financed projects should comply with ambitious energy efficiency criteria and energy-saving measures as well as renewable technologies should be systematically integrated into all projects where feasible.

[43] National strategic reference framework 2007-2013 in support of growth and jobs. Ministry of Regional Development, Warsaw, November 2006, p. 74. On the other hand, Czech Republic and Slovenia plan slight reductions of their greenhouse gas emissions in the order of 3% by 2013 according to the indicators in their NSRFs. The rest of the CEE-10 countries simply do not have any such indicators in their NSRFs.

Between 2007 and 2013 the European Union will invest 177 billion euros in the ten central and eastern European member states via its Structural and Cohesion Funds. CEE Bankwatch Network and Friends of the Earth Europe have analysed the draft plans for the use of the funds which are the subject of current negotiations between the European Commission and the member states.

Our analysis shows that there is only little funding for energy efficiency and renewable energy despite the enormous potentials in the CEE countries. In the transport sector, the majority of the funds is to be spent on roads and motorways. Public transport, which emits three times less carbon dioxide than cars but has suffered from chronic under-investment, is to receive only weak and inconsistent support.

Unless these funding plans are significantly changed in the current negotiations, EU funding is on course to deliver increased greenhouse gas emissions. CEE Bankwatch Network and Friends of the Earth Europe call on decision-makers to prevent seven more years and billions of euros being lost to energy-intensive development. EU action on climate change now and in the future must not be undermined.

Friends of the Earth Europe

Friends of the Earth Europe campaigns for sustainable and just societies and for the protection of the environment. It unites more than 30 national organisations with thousands of local groups and it is part of the world's largest grassroots environmental network, Friends of the Earth International. *www.foeeurope.org*

CEE bankwatch network

CEE Bankwatch Network is an international non-governmental organisation (NGO) with member organisations currently from 11 countries across the central and eastern European region. The aim of the network is to monitor the investments supported by the international financial institutions as well as by the European Union funds, and to propose constructive alternatives to their policies and projects in the region. *www.bankwatch.org*