

TOWARDS A LOW-CARBON COHESION POLICY

Policy suggestions for making the EU structural and cohesion funds supportive of EU climate and energy objectives

Contribution to the Public consultation on the future of EU
Cohesion Policy with regard to question 1.3:

“To what extent is climate change a challenge for cohesion policy?”

Introduction

This contribution to the Public consultation on the future of EU Cohesion Policy is focused on question 1.3: “To what extent is climate change a challenge for cohesion policy?”

Cohesion policy must take into account two different responses to climate change: mitigation and adaptation. This contribution is concentrated on *mitigation* of climate change, which is unfortunately neglected in the Fourth Cohesion Report. At the same time, we fully recognise also the importance of adaptation and the need for cohesion policy to incorporate both responses to climate change.

EU climate and energy objectives

The European Union has declared the aim to mitigate climate change to maximum 2 degrees Celsius above pre-industrial levels. With this in mind, but also in order to ensure its energy security and competitive edge in new technologies, the European Union has adopted the following objectives to be accomplished by 2020:

- reduce greenhouse gas emissions by 20 percent unilaterally and by 30 percent if other countries follow;
- reduce energy consumption by 20 percent; and
- increasing the share of renewable energy to 20 percent.

On 23 January 2008, the Commission published a package of proposals to implement these commitments.

Cohesion policy in contradiction with the climate and energy agenda

Cohesion policy, the second biggest EU spending block, should play a key role in supporting the attainment of EU’s climate and energy objectives.

Unfortunately, as CEE Bankwatch Network and Friends of the Earth Europe demonstrated in the report *EU Cash in Climate Clash*¹, the opposite is the case. 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 whole EU. The Fourth Cohesion Report does not mention this issue at all.

Worryingly, the cohesion policy is also on course to spur increased emissions in the Central Eastern European (CEE) new member states in the 2007-2013 period. Poland plans a 30 percent increase in its greenhouse gas emissions by 2013 compared to 2004, according to the indicators in its National Strategic Reference Framework. This is far more than the emission increase permitted to Poland under the new burden-sharing proposals for the 2020 emission reduction objective. EU climate and energy objectives are thus in danger of being undermined – rather than supported - by the EU's own budget expenditure.

¹ *EU cash in climate clash: How the new member states’ structural funding plans are shaping up to fuel climate change. Comparative analysis of 2007-2013 EU funding allocations for energy and transport.* CEE Bankwatch Network and Friends of the Earth Europe, April 2007
http://www.foeeurope.org/publications/2007/EU_cash_climate_clash.pdf

The report *EU Cash in Climate Clash* called on the European Union to ensure that the 2007-2013 funding is systematically directed towards energy efficiency, renewable energy and sustainable mobility. This would be the way to avoid the scenario experienced by countries like Spain repeating in the new member states.

However, the negotiations between the European Commission and the member states that have taken place since the publication of the report have not led to major shifts in the funding plans.

According to the current figures (January 2008), the ten CEE new member states as a whole have allocated only 1.3 percent of all EU funds for energy efficiency and 1.2 percent for renewable energy in their 2007-2013 programmes. Apart from low direct allocations, there are few if any efforts to horizontally integrate energy-saving measures and renewable technologies into other EU-funded projects.

Out of all EU funding for transport in the CEE-10 countries in 2007-2013, the majority – 55 percent – has been allocated for roads and motorways that will generate more traffic and greenhouse emissions. Only 27 percent is to be spent on railways and eight percent on clean urban transport.²

Based on such operational programmes, EU funding threatens to lock the new member states into high-emission infrastructure for many years, undermining future EU action on climate change.

Already now, some new member states are opposing more ambitious EU action on climate change and sustainable energy development. At the same time, paradoxically, the same countries are not doing their best to use the EU funding to keep their emissions down and promote sustainable use of energy.

Reforming the cohesion policy

The use of EU funds in contradiction with EU objectives is not likely to be allowed to last too long. The cohesion policy will have to be adapted to serve the EU's climate and energy goals. The EU Spring Council of March 2007 indeed already called "*for an early review of the ... relevant Community instruments which can provide incentives, with the aim of making them more supportive of the Community's energy and climate change objectives.*"

A cohesion policy consistent with EU climate and energy objectives will have to focus on promoting *low-carbon development* in member states and regions. There is a broad consensus today that economic development with drastically reduced greenhouse gas emissions is technically and economically feasible, and that its benefits greatly outweigh the costs. This consensus is reflected for example in the UK Stern Review on the economics of climate change, the European Commission's climate change strategy³, and the latest report on climate change mitigation by the Intergovernmental Panel on Climate Change.

Carbon-neutrality is not enough

"Carbon-neutrality" of the funding programmes as a goal of the cohesion policy would not be consistent with the climate and energy objectives. Carbon-neutrality implies stable emissions.

² Calculations based on data provided by DG Regional Policy, January 2008.

³ "Limiting Global Climate Change to 2 degrees Celsius The way ahead for 2020 and beyond." European Commission, January 2007.

However, the EU aims at significant *reductions* of greenhouse gas emissions by 2020 and more drastic reductions afterwards by 2050. Public funding support for carbon-neutral development is thus still undermining the EU's policy objectives. Cohesion policy needs to support development which leads to actual decreases of the emissions.

Policy suggestions

Below, CEE Bankwatch Network and Friends of the Europe propose *some of the possible elements of the necessary reform* of the cohesion policy in accordance with the EU's climate and energy agenda. The suggestions could still be implemented to some extent during the 2007-2013 period (through appropriate implementation structures and during mid-term reviews of the OPs). They could be subsequently fully implemented in the post-2013 period.

1. Shifts in the funding allocations

Making EU funding supportive of EU climate and energy goals requires, most importantly:

- a) increased and broader support for energy efficiency and renewable energy;
- b) more balanced allocation of funds for transport: less funding for roads, and more for public transport and railways;
- c) no funding for the already heavily tax-privileged aviation sector.

The most substantial changes are needed in the plans of the member states with the relatively weakest support for energy efficiency, public transport and railways. For the 2007-2013 programmes in Central Eastern Europe, these are Hungary, Slovakia and Poland with respect to energy efficiency and renewable energy, and Bulgaria, Lithuania, Romania, Slovakia and Slovenia with respect to public urban transport.

2. Systematic horizontal integration of energy efficiency and renewable energy into all programmes

Apart from direct funding for energy efficiency and renewables, it is equally important to ensure that they are, as a horizontal priority, *integrated* as much as possible into all other investments from EU funds.

For example, any investments of EU funds in buildings (schools, hospitals, municipal buildings, company buildings, urban renewal projects) should be conditional on ambitious energy-saving standards and systematic integration of renewable energy technologies. Any investments in private enterprises and their technological modernisation should be conditional on applying the most energy-efficient technologies. In order for this to happen, specific energy criteria and requirements going beyond the minimum legal norms would have to be stated in the Operational Programmes (specifically for each priority or measure), the implementing documents, the calls for project proposals and the project selection criteria. Each project should be screened for energy efficiency potential, and the expert recommendations should be incorporated into the final project design.

Unfortunately, there are very few such criteria and requirements in the 2007-2013 programmes and implementing documents, which is a huge missed opportunity. There has also been no

systematic effort from the European Commission to include ambitious energy efficiency requirements into the project selection criteria. However, some degree of horizontal integration could still be accomplished throughout the implementation of the 2007-2013 programmes. Subsequently, it should become a basic principle for the post-2013 programmes.

3. Roadmaps to low-carbon development (financed from Technical Assistance)

In order to implement the low-carbon development strategy in practice, it needs to be “translated” from the level of international policy documents such as the European Commission’s climate change strategy to national and regional levels. The first step is to conduct national and/or regional “Stern Reviews” throughout the whole European Union. This would require a single-minded initiative by the European Commission. The studies could be financed from the Technical Assistance of the 2007-2013 programmes.

Just like the Stern Review, the studies should examine the impacts of climate change on the particular country or region, the technical and economic feasibility of reducing greenhouse gas emissions, and the necessary policy responses, including the role of public expenditure.

The results would be national and regional roadmaps to low-carbon development that could be implemented in practice. The roadmaps could: a) be integrated as much as possible into the running 2007-2013 programmes and; b) serve as the basis for the post-2013 funding programmes.

Crucially, the roadmaps should include not only technical solutions, but also “soft measures” such as awareness raising and promotion of changes in lifestyle and consumption patterns. These measures can be integrated into the European Social Fund programmes.

4. Tie funds to climate and energy performance

Currently, the EU funds are allocated to member states and regions on the basis of criteria such as population and GDP. However, if the EU funds are really to support the EU climate and energy objectives, they must also become conditional on national and regional progress towards achieving these objectives. This could be the most powerful incentive that the EU cohesion policy could provide to member states and regions in support of low-carbon development.

The precise manner of tying the funds to climate and energy performance is up for discussion. For example, the member states would have to demonstrate how their programmes will contribute to achieving their national emission reduction targets. The Commission should have the power to reject all programmes not consistent with those targets. If it appears that a member state is not on track to reach its targets, the programmes would have to be adjusted.

5. Earmarking of funds for low-carbon investments and restricting energy-intensive investments

The so-called “Lisbonisation” of cohesion policy – the earmarking of the majority of the funds for Lisbon Agenda investments – is an important novelty in the 2007-2013 policy framework. To make EU funding supportive of EU climate and energy objectives, a comparable effort should be made to earmark high minimum funding shares for key low-carbon investments such as energy

efficiency, renewable energy and public transport. At the same time, the financing of climate-damaging investments should be firmly restricted.

6. Dedicated funding measures and instruments

In order to maximise the impact of low-carbon investments, the Commission should prepare a coherent package of the most effective support measures and instruments. The measures can be developed on the basis of best practice in the member states and implemented across the EU, always tailored to the situation in each country. The initiative “Regions for Economic Change” can be used for this purpose. There may also be a need for dedicated instruments similar to the already-existing Jessica or Jeremie that will be explicitly focused on supporting key low-carbon investments.

7. Extended funding eligibility of energy-efficient housing refurbishment

The housing sector involves the biggest potential for energy savings of all the sectors. In particular, the high-rise residential buildings typical of Central Eastern European cities are notoriously wasteful with regard to heat and in urgent need of refurbishment. However, investment from EU funds in housing is limited to 2 percent of ERDF expenditure (or 3 percent of an Operational Programme). This inhibits the potential of cohesion policy to achieve major energy efficiency gains in the housing sector, and in general. It also goes against the 2006 EU Energy Efficiency Action Plan, which specifically asked for more intensive use of EU funds for energy efficiency, including in the housing sector. The limits for investment in housing should be increased, coupled with the dedicated funding instruments mentioned above in order to ensure the most effective use of the funds and to avoid any misuse.

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