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Climate Mainstreaming in the Next MFF and Cohesion Policy: Progress to Date



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Background

In 2011, the European Commission put forward proposals for the next EU Multiannual Financial Framework (MFF). These were accompanied by proposals on EU own resources and around 70 sector specific proposals in policy areas such as research, Cohesion Policy, agriculture, fisheries and the environment. The European Commission suggested that at least 20 per cent of the MFF should be spent on climate change related activities. This should happen primarily through the 'mainstreaming' of climate-related objectives and requirements across the different policy areas. This move could translate into approximately €200 billion being spent on climate change over the 2014-2020 period, creating a decisive increase compared to approximately €50 billion being spent under the 2007-2013 EU MFF. Amongst the different components of EU expenditure, Cohesion Policy has probably the biggest potential to deliver effective climate change investment across European regions if a proper legislative package is put in place.

The Commission proposals on the MFF and Cohesion Policy are currently the subject of intense political negotiation in the General Affairs Council (GAC) and the European Parliament. The negotiation process is rather complex. It entails 'two-track' parallel processes, one on the MFF and another on the legislative package for Cohesion Policy. Albeit formally separate, the two processes are intrinsically intertwined and mutually reinforcing. An additional challenge is the principle adopted by the Council that 'nothing is agreed until everything is agreed'. It implies that no agreement relating to the budget can be considered as prejudging the final policy outcome, while some issues remain pending (eg the total size of the MFF) and others can be revisited at a later stage (eg elements of the Cohesion Policy package). This makes the negotiation process difficult to fully grasp and to assess with certainty the implications from a climate change perspective.

Yet, big decisions remain to be made in the remaining four months of 2012 and a stock-taking exercise is in order. Where do we stand on advancing climate change mainstreaming in the EU MFF and Cohesion Policy in the political negotiations? What are the main issues so far? Are there more opportunities ahead? This Policy Brief attempts to respond to these questions.

Progress and key issues in the MFF

The main concerns underlying the EU MFF negotiations so far have been about the total sum and who gets how much. A group of countries including Finland, Germany, the Netherlands, Sweden, France and the UK asked for cuts in the order of €100 billion from the Commission's proposal, with a view to prioritise fiscal discipline and austerity at a European as well as national level. Germany circulated a paper 'Friends of Better Spending' which called for better quality and more efficient spending with a 'limited budget'.¹ According to Finland and France, Cohesion Policy is too expensive and this is an area where potential savings can be realised. On the other hand, 'Friends of Cohesion Policy' – a group of thirteen Member States comprising mainly net beneficiaries – strongly oppose any cuts to

¹ Friends of Better Spending, Non-paper submitted by AT, DE, FI, FR, IT, NL, SE

Cohesion Policy and consider the Commission proposal as an ‘absolute minimum’.² Therefore, no concrete numbers have appeared so far in the ‘negotiating box’, the main document on which negotiations in Council are being based.

Worryingly, the current text in the negotiating box does include certain selected issues from the proposed MFF; climate change not being one of them. The negotiating box only contains a small paragraph on climate change and environmental mainstreaming, stating that *‘[c]limate action and environment objectives will therefore be reflected in the appropriate instruments to ensure that they contribute to strengthen energy security, building a low-carbon, resource efficient and climate resilient economy that will enhance Europe’s competitiveness and create more and greener jobs’*.

This is a starting point, but it is not enough. There is no reference to the proposal to spend at least 20 per cent of the EU MFF on climate change related activities. Reportedly, Member States are reluctant to discuss dedicating relative shares of the budget to specific activities before the total size of the MFF and respective allocations per Heading and policy area are agreed upon. There is also the argument that defining specific priority measures is more important than a single target figure of 20 per cent, the achievement of which can be subject to ‘green-wash’ calculations and could theoretically constrain more ambitious actions in some Member States.

However, if serious progress is to be made in moving the whole of the EU to a low carbon economy, the next EU MFF needs a yardstick that is clear and easy to communicate. Climate change and the 20 per cent spending commitment therefore ought to be embedded in the negotiating box.

The Cypriot Presidency conducted bilateral talks with Member States regarding their detailed positions on the EU MFF in July and intends to put forward some draft MFF figures on the table already in September. This will provide another opportunity to include quantitative commitments on climate spending, which could then be discussed during the General Affairs Council and the European Council in October and November.

Progress and key issues in the discussions on future Cohesion Policy

Meanwhile, substantive progress has been made in Council on a partial general approach on the legislative package for 2014-2020 EU Cohesion Policy.³ In parallel, MEPs who have co-decision powers on the dossier, have drafted a compromise text on the legal package, which was adopted on 11 July by the Regional Development Committee (REGI). From a climate change perspective, the most important issues to be confronted in the negotiations so far include thematic concentration, investment priorities and performance framework.

² Friends of Cohesion Policy, Communiqué: BG, EE, EL, HR, HU, LT, LV, MT, PL, PT, RO, SL, SV, 24.4.2012

³ Council of the European Union (2012) General Affairs: 3180th Council meeting, Press Release, 26.6.2012, Brussels

Thematic concentration

The General Affairs Council in June supported the proposal by the Commission to earmark at least 20 per cent of national European Regional Development Fund (ERDF) allocations in more developed and transition regions to low-carbon actions. Further, it increased the level of earmarking intended in less developed regions from 6 per cent (proposed by the Commission) to 10 per cent. If projects concerned with energy efficiency and renewable energy under the Cohesion Fund are also counted, the target would be increased to 12 per cent.⁴ The Danish Presidency has interpreted these decisions as a 'serious opening'⁵ for climate change investments in Cohesion Policy, alongside the new possibility to finance energy efficiency and renewable energy in housing under the Cohesion Fund.

In the Parliament, the REGI committee asked for even higher levels of earmarking. MEPs demanded 22 per cent of ERDF spending in more developed and transition regions to go to the low carbon objective. For less developed regions, 12 per cent would apply, but if contributions from the Cohesion Fund to energy efficiency in housing are to be counted as well the target shall be increased up to 15 per cent.⁶

These levels of earmarking are more ambitious than the Commission proposals and are welcome. However, without any concrete numbers on the total size of the Cohesion Policy envelope, it is difficult to assess the actual magnitude of funding that will be made available for low carbon developments. If net contributors win the overall political argument, the size of the MFF is likely to decrease. This has also been indicated in the Presidency paper supporting the Informal Meeting of Ministers, held on 30 August in Nicosia, which states that '*... an agreement cannot be found at the overall level proposed ... therefore, [it is] inevitable that the total level of expenditure proposed by the Commission, including all elements inside and outside of the MFF, will have to be adjusted downwards*'.⁷ Against this backdrop, it is clear that higher relative shares do not necessarily imply an increase in available funds (in absolute terms) for tackling climate change. The discussion about the size of the MFF remains extremely important.

Investment priorities

How the funds will be programmed and how money will be spent within the earmarked categories is another strategic concern. The original Commission intention was to concentrate earmarked low carbon funds mainly on energy efficiency and renewable energy. However, there has been determined effort to widen the scope of investment priorities which would count as low carbon.

The Council and MEPs propose to include activities such as sustainable mobility projects, research and innovation for low-carbon technologies (which could also

⁴ Council of the European Union (2012) Cohesion Policy legislative package – Presidency compromise on thematic concentration, 11027/12, 20.6.2012, Brussels

⁵ EurActiv (2012) Danes make 'serious opening' for greener EU budget, 29.6.2012

⁶ REGI Committee, Compromise amendments accepted by all political parties

⁷ Presidency of the Council of the European Union (2012) Presidency Issues Paper – Multiannual Financial Framework 2014-2020, Informal Meeting of Ministers and Secretaries of State for European Affairs, Nicosia, 30 August 2012

entail carbon capture and storage) as well as the promotion of high-efficiency co-generation of heat and power as counting towards the earmarking commitment. The Polish EPP MEP Jan Olbrycht, rapporteur on the ERDF Regulation in the REGI Committee, even proposed an amendment making the construction and modernisation of gas and oil transmission, distribution, and storage infrastructure an eligible investment priority within the low carbon share of funds.

Such amendments would undermine the ability of the EU budget to support the transition to a low-carbon economy. They would dilute drastically the effectiveness of thematic concentration, distort the clear focus of climate-relevant actions and legitimise the continuation or extension of fossil fuel subsidies in the face of widespread agreement that they should be phased out or certainly reduced⁸. Such a development would mark a significant step backwards compared to the original Commission proposal and deflect resources from boosting energy efficiency, the most cost-effective way to tackle climate change and realise energy savings.

Fortunately the REGI Committee vote in July rejected Mr Olbrycht's provision for including gas and oil in the eligible actions, showing a firm stance on getting the investment priorities right. It is now important that this critical signal is maintained by MEPs during the forthcoming dialogue between the Council, EP and the Commission in the autumn.

Performance framework

A key objective for the future Cohesion Policy, as well as the overall MFF, is a strengthened commitment to moving towards better performance, quality and result-orientation of EU spending. The Commission has eagerly put forward a number of novel mechanisms which aim to strengthen review and reporting processes. Ministers however considerably weakened the approach proposed by the Commission. The focus of discussion has now shifted towards implementation and absorption issues instead of measuring policy outcomes and actual results of expenditure.

According to the Council, a performance review should take place only once, in 2019, which is rather late in the 2014 – 2020 spending period. The Commission had proposed a first review in 2017 and a second in 2019. Ministers want the possibility of financial penalties to relate only to cases of 'serious' failure to achieve milestones in Member States' programmes. Moreover, the programme milestones will only include 'financial indicators, output indicators and key implementation steps'⁹ as reported in annual implementation reports. The Commission had originally intended to move on to result-based indicators.

This is one area where the Commission must defend its proposals if a genuine reform is pursued. Some signs of support are also coming from the REGI

⁸ EC (2011) Roadmap to a resource efficient Europe. Communication from the Commission. COM(2011)571, 20.9.2011, Brussels.

⁹ Council of the European Union (2012) Cohesion Policy legislative package – Cohesion Policy legislative package – Presidency compromise on the performance framework, 11027/12, 20.6.2012, Brussels

Committee in the EP. MEPs have backed the EC proposal for a robust performance framework and must ensure that environmental targets and indicators are elaborated in the Implementing Regulations, which will appear later.

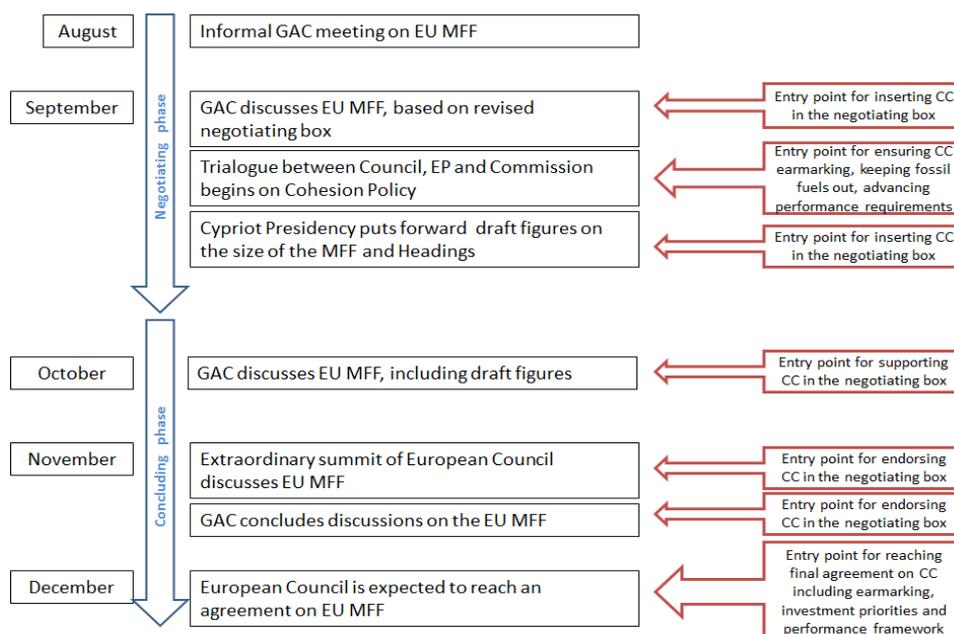
Conclusions and key messages

The last third of 2012 remains an important period for the negotiations on the MFF and Cohesion Policy, particularly in relation to spending priorities. From a climate change policy perspective key issues include:

- Ensuring that climate change is part of the negotiating box, including an endorsement of the 20 per cent spending commitment;
- Achieving ambitious earmarking for genuine energy saving and renewable energy investment priorities and making sure that no fossil fuel subsidies are made eligible under Cohesion Policy spending; and
- Defending robust performance framework requirements and mechanisms going beyond absorption and implementation, focusing on outcome and result indicators accompanied by proper penalties and reward mechanisms.

The EP has demonstrated support for much of this agenda so far and should maintain a strong stance on promoting it in the forthcoming trialogue. There are also several Member States which are sympathetic to the idea of advancing climate change in the next MFF, including the 20 per cent spending target. The Commission should take the opportunity to defend its proposals strongly and build on the support from MEPs and relevant Member States. The figure below shows that there are a number of entry points in the next four months of political negotiations at which ambitions for enhanced climate change financing and climate proofing can be advanced.

Entry points for climate change mainstreaming at EU level by the end of 2012



For more information about IEEP's work on the EU MFF and Cohesion Policy, please contact:
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