THINK 2030

Science-policy solutions for a more sustainable Europe

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Aligning EU resources and expenditure with 2030 objectives

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Science-policy solutions for a more sustainable Europe

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EXECUTIVE SUMMARY

The Think 2030 process comes at a time when EU institutions are in the midst of discussions on expenditure priorities for the 2021-2027 period. The European Commission tabled proposals in May 2018, with an overarching paper explaining its approach; in particular, it stressed the need for a stronger focus on EU added value, for a more streamlined and transparent approach, and for expenditure which delivers tangible results. While the Commission's objective was to secure agreement on its spending proposals before the European Parliament elections, it now seems unlikely that this will happen. Bringing together reflection on Europe's wider sustainability objectives, and how the key instrument of expenditure can help to deliver them, is therefore particularly timely.

This paper looks, first, at how the EU budget has evolved in terms of sustainable development and climate actions; and then in more detail at how the different policy instruments under the next Multiannual Financial Framework (MFF) for 2021-2027 could help make the energy and climate 2030 objectives, and the EU's wider Sustainable Development Goals commitments, become a reality. Finally, it reflects on why it has proved difficult in the past to secure a better focus of expenditure on shared priorities in environmental sustainability, and some ideas on how to shift the terrain of the debate.

While improvements have been made, the MFF lacks the focus, indicators and methodologies needed to make a real difference in terms of climate and energy goals. A stronger alignment between the objectives set by the next MFF, specific targets of EU policy, and the practical implementation of different instruments funded by the EU should be secured to fully realise the 2030 objectives.

We argue that there are a number of simple improvements that can be made. The EU should introduce stronger conditionalities for payments from the EU budget, to ensure that the budget is used more effectively as a means of encouraging full implementation of key European legislation, including protection of the environment. In case of severe violations, such as fraud and corruption or clear breaches of the rule of law, payments should be suspended until the Member State has demonstrated that it is in compliance with EU legislation.

Some experts in the Think2030 discussion were sceptical about the practical chances of more ambitious policies. Making progress on a more effective and rational structure for the EU budget has proved difficult in the past, because of the requirement for unanimous decision-making on the EU's own resources. We recognise that delivering ambitious change requires greater political consensus. The UK's departure from the debate removes one bone of contention – the rebate – and could potentially allow for a resetting of the politics around the EU budget. The EU 27, the Commission and the Parliament, must now rise to the challenge of long-term decision-making in the collective interest.

The EU should therefore consider expanding the current Own resources system by diversifying its sources of revenue with new measures that would support EU political priorities and provide a steer for sustainability by disincentivising activities that are harmful to the environment. From this perspective, new fiscal measures, such as road fuel tax, carbon tax, energy taxes or green custom duties could be introduced into the next MFF to complement the ones already proposed by the Commission. Leaders should also consider how to remove the block on ambition caused by the requirement for unanimity, if necessary by pursuing the enhanced cooperation option among a group of progressive Member States.

1 Background

Sustainable development and climate have gradually increased their importance on the European agenda. The Maastricht Treaty of 1992 pointed out the Community's commitment to sustainability by including a reference to the promotion of "sustainable and non-inflationary growth respecting the environment".[1]

Environmental integration across all policies and programmes has been required for some time, although implementation has not always been convincing. The Amsterdam Treaty in 1997 raised the level of ambition by stating that "environmental protection requirements must be integrated into the definition and implementation of Community policies".[2] The Lisbon Treaty in 2007 went a step further, bringing sustainability into the definition of the EU economic project, by establishing that the EU "shall work for the sustainable development of Europe based on balanced economic growth and price stability, and a high level of protection and improvement of the quality of the environment".[3]

These objectives have both influenced, and in turn been reinforced by, the international agreements negotiated by and entered into by the EU. The Kyoto Protocol initially, and now the 2015 Paris Agreement, flanked by the broader Sustainable Development Goals agreed in 2015 as part of the 2030 Agenda, require a new level of strategic planning and the establishment of clear interim targets and timetables, if they are to be implemented credibly. Similarly, other Multilateral Environmental Agreements, such as the Aichi Targets under the Convention on Biological Diversity, require a rethinking of the resource footprint of the economy if they are to be delivered.

So far, however, sustainable development has not been a decisive factor in the planning of the current Commission's work. The Juncker Commission's policy priorities placed little emphasis on environmental, climate and sustainability issues in their own right, rather sustainability and climate have been treated mainly as strands to be taken into account in the context of economic growth, not objectives in themselves that should be achieved at all cost.[4] Climate and energy objectives, for example, were described in terms of the "potential for green growth", which – while positive and important – fails to emphasise the urgency of early and effective action to avoid dangerous climate change.

This lack of priority characterises the Commission's approach to deliver the SDGs. As stated in a previous report published by IEEP, "the Commission's response to the UN Sustainable Development

[1] Nesbit, M., Paquel K. and Illes A. (2017): Sustainability proofing the next multi-annual financial framework: challenges and opportunities, IEEP, Brussels.

[2] Ibid.

[3] Ibid.

[4] Ibid.

Goals has been to identify the ways in which the current EU and Commission action is already addressing them, rather than to identify gaps and priorities for improvement".[5]

How then, given this starting point, should climate and the SDGs be integrated into the next EU financial framework, and into future budgets? It should be noted that sustainable development was also missing from the European Council conclusions of the current Multiannual Financial Framework (2014-2020), even though they did include a commitment to devote a minimum of 20% of the EU budget to climate action[6].

Some instruments financed under the EU budget, such as the European Structural and Investment (ESI) Fund, have had explicit references to the principles of sustainable development. The Commission has followed similar processes in the assessment of structural funds, rural development and fisheries funds. However, sustainable development has until now lacked the legislative backing it requires from the EU to make a difference in the Member States.

In the mid-term review of the current MFF in 2016 sustainability proofing was not raised in any way by the Commission. This element came up only later in January 2017 in the final report of the High-Level Group on own resources chaired by former Italian Prime Minister and former Commissioner Mario Monti. It suggested the use of sustainability as an overarching framework for the future development of EU own resources. According to the report, the current system of own resources "does not contribute to the central objectives of 'smart, sustainable, inclusive growth' as laid down in the Europe 2020 strategy, or to the sustainable development goals".[7]

Similarly, in a report published in 2016, the European Court of Auditors (ECA) pointed out that, despite the EU's commitment to dedicate 20% of its funding to climate-related activities, the Commission's mechanisms for tracking climate expenditure that occurred in practice were in some cases lacking or over-generous.

According to the ECA report, the establishment of a climate target has led to better-focused climate action funding in the European Regional Development Fund and the Cohesion Fund. However, there has been no significant shift towards climate action in the fields of the European Social Fund and in the areas of agriculture, rural development and fisheries.

As to biodiversity tracking, the Commission has monitored it since 2014. Due to a lack of high-level commitment from the Member States, there has been less focus on biodiversity targets than climate objectives, even though the Commission has provided regular statements and estimates as part of each year's budget.

Why have the EU institutions – both the Commission and the legislators – failed to integrate climate and environment issues more effectively into the budget, and into individual programmes? Given the requirements in the Treaties, it could be assumed to be a priority. Part of the answer lies in the political

[5] Ibid.

[6] While green groups have criticised this for a lack of ambition, it is worth noting that there are no other OECD governments which currently have similar targets and tracking mechanisms on climate change.

[7] Future financing of the EU: Final report and recommendations of the High-Level Group on Own Resources. Published on 20 January 2017 by the European Commission.

economy of European decision-making. On the one hand, individual Council formations determine the Council's position on programmes, and Ministers in Council are often keen to respond to specific political constituencies (for example, farming and rural voters in the Agriculture Council). In the European Parliament, while the whole house votes, it does so on the basis of a draft report produced by the relevant Committee and membership of the relevant committees is often more of a priority for politicians, parties, and national delegations with a particular interest in benefits from the relevant programme. Finally, when decisions are taken at the level of the European Council, the need for consensus can make it difficult to agree ambitious messages about the environmental integrity of the budget as a whole, or a clear focus for individual programmes, over strongly-expressed objections of individual or small groups of Member States.

There is also a broader governance challenge in the MFF and budget negotiations. For many national leaders, the challenge in budget negotiations centres less on the long-term, shared EU priorities which the collective interest would emphasise, and more instead on net benefits or contributions for their country in the short to medium term. For some regimes on the authoritarian/populist spectrum, access to European funding is an important element in exercising political influence domestically.

How, then, do we shift the debate on EU spending, and move it away from a narrow GDP focus, to one which looks more closely at broader EU added value, and in particular at the contribution to shared environmental and sustainability challenges? Why is it that the current process pays insufficient attention to long-term challenges, and the interests of future generations? What do we need to do to ensure that the politics matches the underlying public interest? How do we deliver a better match between greener expenditure, and greener revenue-raising, given the challenge of unanimous decision-making on the own resources system and on taxation?

2 The new MFF: challenges and opportunities

The introduction of the next MFF (2021-2027) may provide an opportunity to change this pattern into more concerted and decisive action. The proposals made by the Commission contain many promising elements that should be further strengthened through concrete action.

First of all, there is a need for significant additional investments into clean energy and energy saving. In 2016, the Commission estimated that some EUR 178 billion in additional investments would be required annually to reach the three targets set at that time (-40% GHGs, 27% Renewable Energy, 27% Energy Efficiency). Since then, these objectives have been revised further up, whereby financing needs have increased in a similar way. Public funding, including the EU budget, will have a role to play in filling the gaps, particularly in encouraging early deployment of newer technologies and techniques which are not yet economically viable, and in attracting private finance where there are market failures.[8]

In its proposals for the next MFF, the Commission proposes to increase its climate mainstreaming target from the current level of 20% to 25%. In addition, it suggests spending some of the revenue obtained from the EU Emissions Trading Scheme to cover MFF expenditure under the EU own resources system.

The Commission does not provide a breakdown of climate spending in key policy instruments. This information can be found only by going through each proposed regulation, which increases the risk of misinterpretation. The proposal should be complemented with a clear methodology and set of indicators covering those budget programmes that have significant levels of climate-related expenditure. It should also have a clear statement of what climate outcomes each of the programmes will aim to achieve through this spending.

In Cohesion Policy, the Commission proposes to focus attention on low-carbon targets through a new objective to promote “a greener carbon-free Europe: clean and fair energy transition”; covering similar ground to thematic objective 4 in the current programming period, “supporting the shift towards a low-carbon economy”. In addition, the Commission outlines items under this objective excluded from the scope of the European Regional Development Fund and Cohesion Fund. As a result, “investments related to production, processing, distribution, storage or combustion of fossil fuels” would not be eligible for funding.[9]

In the Common Agricultural Policy, the Commission puts “greater emphasis on environment and climate”, with “environmental care and climate action” identified as one of its three general objectives. In addition, 30% of pillar II spending should be dedicated to climate, natural resource protection, and biodiversity; and, in contrast to the similar provision in the 2014-2020 period, expenditure on areas

[8] Duwe, Matthias 2018: Bringing Paris into the future MFF: how to maximise the benefits of EU funding for the achievement of EU climate objectives. Integrating the 2021-2027 MFF and the new 2030 energy and climate target governance. Ecologic Institute: Berlin.
[9] Ibid.

facing natural constraints are excluded from the 30% minimum. Under Pillar 1, Member States would be obliged to offer voluntary “eco schemes” to farmers that want to introduce more environmentally sound production methods.[10] In contrast to the current system, Member States will have much greater flexibility to design their own systems for payment; and it will be vitally important that there is careful scrutiny of the effectiveness of the new eco-schemes in delivering their environmental objectives.

There is a further element that deserves attention: the Energy Union governance regulation proposed by the Commission, and now agreed by Council and Parliament, which requires Member States to indicate within their National Energy and Climate Plans (NECPs) the intended use of EU funds and their impacts on greenhouse gas emissions, renewable energy and energy efficiency targets. This could eventually lead to a more direct alignment of NECPs and the MFF.[11]

In general, however, the 2030 climate and energy objectives do not stand out as an overarching element in the Commission’s proposals. The Energy Union is not mentioned at all, and the Paris Agreement is only referred to on four occasions.[12] Other environmental objectives, including biodiversity targets, receive even less attention.

[10] Ibid.

[11] Ibid.

[12] Ibid.

3 Own resources: an opportunity to promote budget resilience and support political priorities

The EU budget is currently financed mainly through national contributions generated from Gross National Income (GNI) and VAT-based resources. The Commission is now proposing “to modernize and simplify the existing Own resources system and diversify the sources of revenue”.[13]

The Commission proposes to phase out the current system of national rebates, with all corrections on the revenue side of the EU budget transformed into transparent and transitionary lump sum payments by the Member States.

In addition, the Commission proposes to simplify the current VAT-based Own resources so that in the future they would be based on standard rate supplies only.

Finally, the Commission proposes a new set of Own resources to forge a stronger link between the financing of the EU budget and the Union’s policies. This could set a precedent for the introduction of climate-related incentives: such measures can have a major impact at national level as they provide a signal to the Member States by showing which direction the EU is aiming at.

As part of its proposal, the Commission suggests allocating a share of 20% of the Emissions Trading System to the EU budget, to relaunch a Common Consolidated Corporate Tax Base, and to introduce a national contribution calculated on the amount of non-recycled plastic packaging waste.

These new Own resources should contribute an estimated EUR 22 billion per year, corresponding to about 12% of total EU budget revenue. As a result, the national contributions based on GNI should be reduced to the same extent.

In addition, the Commission proposes to increase the respective ceilings for payments and commitments to 1.29% and 1.35% of the EU-27 GNI to ensure that the Union is able to fulfil its financial obligations pledged under the European Development Fund regardless of economic downturns.

As stated by the Commission, “diversifying the sources of (…) income will increase the resilience of the EU budget, (…) sharpen the focus on European added value and help ensure that both sides of the budget contribute to the Union’s political priorities”.[14]

The question remains why the Commission has restricted itself to only two distinctively new (ETS and plastic waste related) measures, when it could have complemented its proposal with a number of similar initiatives. There is real potential for combining an EU-level push for more effective use of fiscal

[13] A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027. Communication from the Commission to the European Parliament, the European Council, the Council etc. COM(2018) 321 final.

[14] Ibid.

measures to the delivery policy objectives, with a more stable and autonomous financial basis for the EU budget. Our discussion with experts at the Think2030 conference raised the question of the potential for behavioural taxes, especially if they succeed in moving behaviours, to be inherently unstable; we recognise that finance ministries need to be provided with greater confidence and reassurance in this area, but also recommend that focusing receipts from green taxes on investment for a sustainable future helps at least in part to address the challenge of fiscal stability.

Based on two previous reports produced by Green Budget Europe in 2016[15] [16], we suggest the following alternatives to be included in the discussion on the next MFF:

3.1 Road fuel tax

The introduction of an EU-wide road fuel tax could reduce emissions, correct the fiscal gap between diesel and petrol, and address externalities, including congestion and air pollution. Such a measure would seem appropriate as the transport sector represents the only major area of EU activities where GHG emissions are still on the rise. Transport is also a major contributor to air pollutants detrimental to human health. Furthermore, price differences in fuel costs cause major distortions to the internal market by enhancing fuel tourism between certain Member States.

3.2 Carbon tax

An EU-wide carbon tax could tackle GHG emissions not covered by the EU Emissions Trading System (ETS), provide an underpinning to the ETS price, and powerfully demonstrate the EU's commitment to the Paris Agreement and UN SDGs, whilst helping consumers and producers to choose low-carbon alternatives. The objective should be to create a level playing field between different energy sources by setting a minimum price for CO2 emissions that are not currently covered by the ETS, and a floor price for the ETS.

3.3 Green custom duties

Green custom duties (or carbon border adjustments) could tackle the price advantage caused by lax environmental requirements in third countries, thereby ensuring the consistency of EU environmental and trade goals. It could be particularly relevant for economies, like the US, which are failing to deliver on Paris Agreement commitments.

Implementing these policies at EU level is challenging, given the current requirement for unanimity on fiscal decisions at EU level (and indeed the own resources decision). However, there are grounds for optimism that sufficient countries with significant economic weight could ask to take forward the principle of enhanced cooperation; a minimum of nine countries could introduce joint measures despite a lack of consensus at EU level. Resources generated through such an enhanced cooperation approach could then be earmarked to finance climate and energy measures in Member States participating in this joint fiscal exercise – either as part of the EU budget, or as an enhanced level of Member State co-financing for the EU funds.

[15] Communicating Green Own Resources: A New Narrative for the EU Budget. Written by Constanze Adolf and Klaus Röhrig. Green Budget Europe, December 2016.

[16] Green Taxes as a Means of Financing the EU Budget: Policy Options. Written by Constanze Adolf and Klaus Röhrig. Green Budget Europe, October 2016.

4 Possible solutions to reinforce climate performance in the next MFF

A number of short-term improvements, building on the Commission proposals for funding programmes in the next MFF, could also have a significant impact.

4.1 Improved alignment between instruments

There is a need to ensure the alignment of the next MFF with the governance of EU climate and energy targets for 2030. The approach introduced under the current MFF to adopt Partnership Agreements with each Member State across programmes, provides a good example on strategic alignment; although the proposed removal of CAP rural development funding from Partnership Agreements in the next programme period is a retrograde step. In addition to comprehensive Partnership Agreements, linked to National Energy and Climate Plans (NECPs), similar overarching policy priorities should be established and implemented in the various instruments financed under the next MFF.[17]

4.2 Better indicators and methodologies to evaluate climate impacts of EU funded activities

The Commission's proposal should be complemented with a set of indicators covering those budget programmes that have significant levels of climate-related expenditure. For instance, in the case of large infrastructure projects, the guidelines developed by the EIB for the assessment of project-related GHG impacts (Scope 1 and Scope 2 emissions) could provide a basis for the harmonization of key parameters used in the calculation of emissions. A further harmonization of climate relevant indicators would be recommended across the main budget programmes.[18] A key need is to be able to demonstrate to EU citizens what climate mitigation and adaptation benefits are being delivered through EU spending.

4.3 New Own resources to support EU policy priorities

The Commission's proposal for the next MFF should be complemented with additional Own resources to support EU political priorities and promote budget resilience. Pledges made on sustainable development and climate change will require large-scale investments in new infrastructure, as well as compensation measures and reskilling programmes to counter employment losses caused by the gradual phase out of fossil fuels.

[17] Duwe, Matthias 2018: Bringing Paris into the future MFF: how to maximise the benefits of EU funding for the achievement of EU climate objectives. Integrating the 2021-2027 MFF and the new 2030 energy and climate target governance. Ecologic Institute: Berlin.

[18] Ibid.

5 Changing the terms of debate: an improved focus on long-term strategy

The challenge we are currently facing is staggering: in 2016, up to 72% of EU's energy consumption was still based on oil, gas and coal. This should be brought down close to zero during the next three decades. It is quite obvious that we will not reach this objective unless we introduce supporting measures to ensure the coherence of EU actions.

The EU budget should have a steering impact to sustainability by disincentivising activities that are harmful to the environment. The introduction of green Own resources and environmental fiscal reform could be instrumental in nudging business and enterprise to help transform the EU economy to a more sustainable path. In addition, we need to use the EU budget to help deliver an increase in the pace of decarbonisation that is not feasible through the actions of individual Member States. An ambitious EU strategy for long-term GHG emissions reduction, based on a whole-economy vision of net zero emissions by 2050, is clearly needed. This would help to identify the sectors, and technologies, where progress is currently too slow, and where early deployment of new technologies and new ideas is needed in order to accelerate learning effects, and bring down the cost of the transition from fossil fuels to low-carbon economy.

The steps we outline in this report can help to improve and optimise the delivery of climate and sustainability objectives. There are a number of simple and pragmatic options, which many of the experts we discussed this paper with in the Think2030 meeting felt should be the focus. But will they have a powerful enough impact? More radical options, including changes to Own Resources, are more difficult to achieve; and some in the Think2030 discussions suggested that focusing on them is unrealistically ambitious. However, our view is that policymakers should avoid pessimism, and should seize opportunities that present themselves for further progress, including on fiscal options.

How then do we achieve progress given the political constraints we note above? The use of the enhanced cooperation approach is one possibility. In addition, the European Council and the co-legislators could call for a regular assessment, not just of whether the budget is in line with the Treaty requirements for integration and sustainable development, but what more could be done to improve that alignment. One of the tests for the seriousness of the discussion on the EU's strategy for long-term GHG emission reduction should be whether it leads to a recognition of what early action is needed to make long-term action both feasible and economically more efficient, and the contribution of the EU budget to delivering on those priorities.

Discussions on money have not always brought out the best in the EU institutions. But the new paradigm for budget decision-making, with rebates no longer a toxic constraint on positive visions, creates the conditions for a more confident EU budget focused on long-term challenges, and not just on short-term sectoral and national calculations.

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