Strategies and Instruments for Climate Proofing the EU Budget

Interim report

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1 Introduction

The EU budget is one option in the EU's tool box to deliver policy results. It reflects, or has the potential to reflect, the changing policy priorities of the EU over time. The EU pursues a wide range of objectives, including through the budget, most of which will have some implications for climate change mitigation and adaptation. With mitigation of, and adaptation to, climate change becoming increasingly central EU policy goals, the issue of policy integration and more fundamentally of policy coherence arises: are the policy goals pursued under, for example, Cohesion Policy (the second largest element of the budget) compatible with the policy goals pursued in relation to climate change mitigation and adaptation (and vice versa)? If not, what could and should be done about it? It is interesting to examine the budget in this context.

There is a growing view among policy stakeholders that the future EU budget should not only dedicate targeted spending to climate change mitigation and adaptation actions but also horizontally integrate climate change measures across all spending areas. For example, in November 2009 at a conference on 'climate proofing' EU structural and cohesion funds held at the European Parliament (EP), there was a general agreement among participants (including European Commission staff, members of the EP, academics and civil society), that the EU budget should be 'climate proofed'.[1] However, further clarification of the meaning of 'climate proofing' and how it can be operationalised in a post-2013 policy framework is required.

A number of recent studies have analysed options for the direct financing of climate change measures under the current financial perspective 2007-2013 and the potential to enhance these in the future programming period[2]. However, little has been done on the concrete strategies and instruments required to integrate climate measures into other EU spending areas. One notable exception is a report by the ENEA-REC[3] which looks into different approaches to 'climate proofing' Cohesion Policy programmes, but the analysis is limited to the Member State level and does not provide a clear definition of 'climate proofing'.

While some thinking is being developed in policy and academic communities on how to bring climate change from the periphery to the core of the EU budget review and future Cohesion Policy, the issue remains highly contentious and politically sensitive. The current EU budget reflects an entrenched and delicate balance of interest between Member States so delivering substantial reforms will not be easy. Furthermore, the EU budget is limited in size and Member States are unlikely to agree upon an increase in their contribution in times of budget deficits and austerity measures. So, against this background, a discussion concerning ways to climate proof the EU budget is highly relevant and timely.

1.1 Scope of the paper

This is an interim report seeking to provide a basis for further discussion and reflection on the clarification of what climate proofing might mean in the context of the EU budget in general and Cohesion Policy funds in particular. It examines some emerging tools and strategies for 'climate proofing' and some ways in which the concept could be operationalised in future. As such we hope to contribute to the debates on the EU Budget Review White Paper due in mid October 2010 and to

[1] CEE Bankwatch Network and FoEE. 2009. Climate proofing EU structural and cohesion funds. Conference, 17 November 2009.

[2] Adelle et al. 2008, Green Alliance 2007 and 2010, FoEE and Bankwatch 2007 and CEPS 2009

[3] REC-ENEA. 2009. Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

provide the Commission and other stakeholders with food for thought prior to the preparation of the legislative proposal for the EU post-2013 financial perspectives due in early 2011. The Commission White Paper for long term budget reform was first expected in 2008 but has been considerably delayed. Although it might seem to have lost momentum, it is intended to underpin discussions on the post-2013 financial perspectives, which will be an important window of opportunity for climate proofing the budget. In addition, the need to 'climate proof' the EU budget is unlikely to disappear between now and 2050. The debate about how this should be done is in its infancy and has relevance much beyond the negotiations of the next multi-annual financial framework.

It is interesting to examine the EU budget in its entirety, including its overall principles, priorities and 'life cycle' and it should be noted that climate proofing could well touch on the distribution of funds, not only *within* funding instruments, but also *between* funding instruments[4]. However, in order to keep the task manageable, the empirical focus of this paper is on Cohesion Policy and its funding instruments, in particular on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). Other EU funding instruments are also of potential significance, in particular those associated with the Common Agricultural Policy (CAP). The choice to focus on Cohesion Policy is justified by the fact that its funds constitute up to one third of the EU budget for the current 2007-2013 financial perspective. Moreover, their objective is to shape the long-term development of many European regions and therefore they have significant potential for facilitating low-carbon development pathways in those regions. Nonetheless, although many of the proposals for strategies and tools put forward here are most relevant for the Cohesion Policy Funds, some have wider implications for the EU budget as a whole.

The report first discusses the increasing centrality of climate change considerations in EU policy; it then attempts to offer an interpretation of 'climate proofing' in the context of the EU budget and Cohesion Policy; next, it elaborates a conceptual approach to identifying and devising potential strategies and tools for 'climate proofing'. Following this, the report surveys potential entry points in the life cycles of both the EU budget and Cohesion Policy where climate-proofing strategies and tools could be applied effectively, and concludes with propositions for a possible 'toolbox' for climate proofing the EU budget.

The primary focus of this report is on the expenditure side of the EU budget. However, it needs to be recognised that the revenue side also forms an important part of the review debate and could potentially offer certain opportunities as far as climate proofing is concerned particularly. For example, with regard to the budget's 'own resources' a EU-wide carbon tax or revenues from the ETS auctioning of emissions allowances could be considered. This debate has recently resurfaced, therefore we touch upon it in this version of the report, whereas more in-depth discussion will take place in its final version.

For the next version of the report, due at the end of 2010, we will also expand the empirical aspect and focus on three sectoral interventions; those for transport, housing and energy. Together, they probably have the greatest potential for carbon emission reduction and are significant for the adaptation task that lies ahead. Specifically, we examine what climate proofing might mean within these sectors, how it can be achieved, what factors can obstruct or facilitate successful proofing strategies, and what good practices can be identified in Member States for possible wider application.

[4] e.g. Adelle et al. 2008; Behrens et al. 2008

1.2 The increasing centrality of climate change in EU policy: implications for the EU budget

The current financial perspective, which runs from 2007-2013, was proposed by the Commission in 2004 in the Communication 'Financial Perspectives 2007-2013'.[5] It was the subject of a political agreement by EU Heads of State and Government in December 2005 and was finally agreed in a new Inter-Institutional Agreement with the European Parliament in May 2006. As such it reflects the political priorities at the time. Since then, addressing climate change has come to occupy an increasingly central position among the policy goals of the EU and the need for integrating it into other policy areas is being taken much more seriously. For example, this was evident in the March 2007 European Council conclusions which, recognising the significance of energy production with regard to greenhouse gas emissions, stressed the importance of an integrated approach to climate and energy policy, making environmental sustainability and combating climate change one of three objectives of the energy policy for Europe.

In September 2007, the EU launched a 'no taboos' review providing a 'once in a generation' opportunity to reform the budget[6]. According to Wilkinson *et al.*, the launch of the 2007 CAP 'Health Check' by DG Agriculture and a major public consultation on Cohesion Policy by DG Regio should, at least in part, be understood as 'pre-emptive attempts by big spending Commission DGs [...] to limit the terms of the debate'[7]. Nonetheless, responses to public consultation in 2008 on the Commission's document 'Reforming the budget, changing Europe' [8] highlighted climate change as one of the top future challenges. Subsequently, climate change and energy supply were identified as one of the three major spending priorities in the Commission's leaked draft Communication on the budget in October 2009.

More recently the Europe 2020 Strategy for 'smart, sustainable and inclusive growth', put forward by the Commission in March 2010, included the EU's strategic 20/20/20 climate and energy targets as one of five headline targets defining where the EU wants to be in 2020. This may be superseded in time by a 30 per cent target as advocated by several leading members of the Council. This is a significant development as the targets are intended to serve as shared objectives for guiding action at the Member State and Community levels. Europe 2020 was finalised and endorsed by the European Council in June 2010 and subsequently in July the Council adopted a recommendation on broad economic policy guidelines which, together with the draft Decision on guidelines on employment policy, form the so-called 'integrated guidelines' for the structural reforms that need to be carried out in the next five years under the Europe 2020 Strategy. One of these is 'improving resource efficiency and reducing greenhouse gas emissions'[9]. The European Council also concluded that 'all common policies, including the common agricultural policy and cohesion policy, will need to support the strategy.'[10]

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[5] CEC. Communication Financial Perspectives 2007-2013 (COM(2004)487)

[6] Wilkinson et al. 2008. Green Budgeting. In: Innovation in Environmental Policy? Integrating the Environment for Sustainability, edited by Jordan and Lenschow, Edward Elgar, Cheltenham.

[7] Ibid.

[8] Commission communication 'Reforming the budget, changing Europe' (SEC(2007)1188), 12/9/2007

[9] Council of the European Union. Europe 2020 Strategy for growth and jobs: the Council adopts broad economic policy guidelines. 12082/10, 13/07/2010

[10] European Council Conclusions 17 June 2010. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/115346.pdf

The increasing political centrality of climate change in policy should therefore also be reflected in the EU budget. This is currently not the case so there is a need to update the EU budget in the context not only of the current review, but more importantly in the context of setting the next multi-annual financial framework. Therefore, 'climate proofing' can be seen as one means of bringing the EU budget up to date so that its priorities reflect EU goals in relation to climate change to 2020 and beyond.

1.3 What is 'climate proofing'?

The term 'climate proofing' appears to have emerged from the international climate change adaptation literature but has clear relevance to the EU budget review. So far, the discussion about 'climate proofing' has included references to a number of different and partly interchangeable concepts such as 'climate resilience'[11], 'mainstreaming' and 'integration', and even 'turning the EU budget into a tool to support the fight against climate change'[12]. Some have suggested that it is important that best practice (e.g. in terms of energy efficiency) is supported by direct financing or integrated into other funded projects, or that investments in infrastructure projects take account of the risks to those projects arising from climate change impacts such as sea level rise or increased frequency of extreme weather events.[13] Hence, this debate reflects two important dimensions of climate proofing: the need to avoid exacerbating the problem, and taking into account any risks to which we are already committed. As such it grows out of a much older concern, one of integrating environmental policy concerns into other policy areas.[14]

But still the question is ultimately what exactly does it mean to 'climate proof' the EU budget? Interpretations could range from deploying a simple impact assessment to identify likely greenhouse gas emissions from projects receiving support (without necessarily doing anything about them), through setting out coherent budgetary and climate change priorities and objectives, to *ab initio* excluding from funding certain types of interventions which are carbon intensive, e.g. investment in fossil fuels or motorways. As far as climate adaptation is concerned, even more nuanced interpretations are possible.

There is a close relationship between the concept of 'proofing' policies adopted by an authority and that of policy coherence or the co-ordination of policy goals[15]. In the case of the EU budget, an example would be bringing it up-to-date in a way which reflects the central place now occupied by the need to address climate change. Integrating environmental concerns into other policy areas is not only about looking ahead. As far as climate change is concerned, it is also a matter of ensuring that policies, and spending plans agreed at a time when the full importance of climate change had not been taken on board politically, are now brought up-to-date.

Beyond the more general concepts of proofing and integration, there is a more specific question about whether the EU budget should be 'carbon neutral' (understood as providing funding for a range of interventions, the total impact of which incurs no increase in greenhouse gas emissions) or

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[11] REC-ENEA. 2009. Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

[12] Adelle et al. 2008. Turning the EU Budget into an Instrument to Support the Fight against Climate Change. SIEPS: Stockholm

[13] CEPS Task Force. 2009. For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.

[14] see Wilkinson 2007 for a recent overview of this literature

[15] Mickwitz et al. 2009. Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.

actually set a target for the provision of funding only if it leads to emission reductions. The principle of 'carbon neutrality' of EU funding has been introduced but only partially applied in some Member States in the current Cohesion Policy programming period (e.g. France).[16] Developing this further as a whole, Operational Programmes adopted by Member States under different funds would be able to include different types of investments as long as the Programme remains ultimately 'carbon neutral'.

It is worthwhile to delve further into what is meant by 'carbon neutrality' in this context and whether this is appropriate given the EU's climate and energy policy goals. A Transport Programme, for instance, would be permissible if half the investments receiving support consisted of road construction as long as the other half is allocated to less carbon intensive transport modes (such as rail, intermodal, urban, etc) on the basis that this will offset at least some of the emissions resulting from road construction.

So there is a further issue about whether future EU funding should continue to promote this form of 'carbon neutrality' or focus more on encouraging actual emission reductions and savings. Under the latter approach, most funding activities which can potentially increase carbon emissions would be either reformed or phased out. The implication of this would be that EU funding would be allocated primarily to less climate intensive transport modes by focusing on rail, clean public transport and intermodal centres.

The idea of reforming or phasing out financial support for carbon-intensive activities, central to most forms of climate proofing, is politically sensitive. For example, whereas financing road transport is often seen as a means to improve the accessibility of more peripheral or less developed regions in order to foster growth, it is one of the starkest examples of funding which would in most cases increase greenhouse gas emissions and lock regions into carbon-intensive infrastructure for the long term. More than a fifth (23.8 per cent) of the €347 billion Structural and Cohesion Funds for 2007-2013 have been allocated to transport projects, of which 50 per cent is targeting road construction and rehabilitation. Aviation still benefits from EU funding, while more climate-friendly modes (e.g. rail, urban, intermodal, intelligent systems) receive substantially less attention.[17]

However, this is a specific case and even where there are political barriers, it does not follow that proofing is impractical. A robust and long-term vision about the budget and climate change is required. Reference also needs to be made to EU climate policy. Under one strand of this, the effort sharing Decision, certain new Member States are allowed to increase their emissions for non-ETS sectors (sectors which are not included in the EU Emissions Trading System, such as transport)[18] so the argument to make Community funding for transport more restrictive in carbon terms might be a difficult one to make. Arguably, new Member States could still opt for the development path they would like to pursue but without being offered the opportunity to use the EU budget as the means to do so if this is incompatible with a vision for a 'climate-proofed' budget.

As far as climate change *adaptation* is concerned, discussions about the meaning of 'proofing' the EU budget are similar and yet different. Climate change adaptation as a Community policy is still relatively immature but is developing alongside recent research. There can be a strong economic

[16] REC-ENEA. 2009. Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.

[17] DG Regio. 2008. Statistics - http://ec.europa.eu/regional_policy/themes/transport/index_en.htm

18 Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020, OJ L140

case for investing in adaptation with regard to the potential impacts of climate change on key economic sectors and local communities. The question is about the role of the EU budget in securing such investments in terms of scope and scale. Furthermore, in line with the 2009 White Paper on climate change adaptation, 'proofing' could also be seen as trying to ensure that all future EU projects are made 'adaptation positive' and 'climate resilient' through, for example, integrating expertise on climate change analysis and risk management in feasibility studies or improving construction standards. Furthermore, investing in ecosystem-based adaptation measures (e.g. forestation and wetlands restoration) could also deliver important co-benefits for increased greenhouse gas (GHG) absorption capacity in a cost-effective manner.[19]

In conclusion, 'proofing' would appear to be concerned with ensuring that public funding both mitigates climate change and addresses the risks to which we are already committed through past emissions. In thinking about how to meet this challenge we may look to the environmental integration literature, and indeed to the wider policy coherence and policy co-ordination literature concerned with the challenges of ensuring that the complex array of policies and instruments employed by the modern state at least do not contradict each other and preferably support each other. We may also look to some more recent examples of attempts to integrate political priorities into public sector budgets, and in particular the EU budget, such as the so-called 'Lisbonisation' of Cohesion Policy funds[20].

These discourses help to frame, and provide a useful conceptual grounding for, the debate on climate proofing the budget. The following chapter will consider in more depth this way of situating different approaches to integration.

[19] UNEP research brief: The need to include ecosystems management as part of the COP15 agenda. http://www.macaulay.ac.uk/copenhagen/documents/UNEP-CC-EM-12-page-brief.pdf

[20] EPRC. 2006. Strategic planning for structural funds 2007-2013. A review of strategies and programmes. IQ-net thematic paper N.18(2), September.

2 Potential strategies and instruments for climate proofing

Before considering how climate proofing could be taken forward, it is useful to review different strategies, approaches and instruments that have been used to pursue environmental policy integration and policy coherence, drawing mainly on established literature. This contributes to building a conceptual foundation for the more specific focus on the EU budget and Cohesion Policy.

2.1 Approaches to environmental policy integration

Environmental policy integration (EPI) as a concept can be traced back to the 1970s, but it gained significant prominence after it featured in the Brundtland report in 1987[21] and Agenda 21[22], particularly in relation to sustainable development and ecological modernisation[23]. In the EU, the notion of environmental integration has been embedded in the Treaties. Article 11 of the TFEU stipulates that:

> *'Environmental protection requirements must be integrated into the definition and implementation of the Union policies and activities, in particular with a view to promoting sustainable development.'*

It has also been taken up in the EU Environmental Action Plans (EAP), EU Sustainable Development Strategy and the so called 'Cardiff' process. Although the concept remained largely in the realm of political rhetoric, progress was achieved in some sectors. Several authors have investigated efforts towards environmental integration in the EU and front-running Member States, and attempted to forge conceptual frameworks for defining, delivering and measuring it[24].

Essentially, the idea of taking account of environmental concerns in sectoral policy-making came about when it was acknowledged that key pressures on the environment and ecosystems are deeply entrenched in sectoral policies. It was also recognised that a fundamental shift in traditional policy-making was necessary to emphasise the anticipation and prevention of environmental impacts instead of 'cleaning up' or deploying 'end-of-pipe' technologies.

The institutional dimension has been quite prominent in this debate. While the responsibility for environmental issues in traditional public policy-making tends to lie with environmental authorities and the policies and pathways available to them, sectoral decision makers have often been reluctant to embrace integrative approaches to problem solving and priority setting[25]. The implication of this is that if effective integration of environmental objectives is pursued, a high level commitment and readiness for action needs to be established on the part of the relevant sectoral actors and appropriate coordination and procedural mechanisms should be set in place.

Therefore, much of the literature on environmental policy integration tends to explore the institutional architecture, modes of governance and procedural instruments conducive to integrating the environment into other policies. 'Integration', however, rather should be understood as

[21] World Commission of Environment and Development. 1987. Our Common Future, Oxford University Press.
[22] UNCED. 1992. Agenda 21, United Nations, New York.
[23] Nilsson, M and Eckerberg, K. 2007. Environmental Policy Integration in Practice: Shaping Institutions for Learning. Earthscan.
[24] See Lenschow 2002, Nilsson and Eckerberg 2007, Jordan and Lenschow 2008, Jacob and Volkery 2008
[25] Jacob et al. 2008. Instruments for environmental policy integration in 30 OECD countries. In: Innovation in environmental policy? Integrating the environment for sustainability, Jordan and Lenschow (2008). Edward Elgar: Cheltenham.

achieving concrete outcomes in terms of reducing pressures and improving the state and quality of the environment. There is relatively little literature delving into the causal relationship between the processes adopted in pursuit of EPI and the actual outcome on the ground. Nonetheless, one conclusion from published work is that the *implementation* of different EPI strategies and instruments has presented the most challenges[26] and therefore is crucial for a positive outcome for the environment.

The EU budget is increasingly seen by many as outdated, trapped by traditional spending priorities and 'out-of-line' with current EU objectives. The need to bring climate change concerns from the periphery into its core priorities increasingly is being vocalised.[27] The next section consults the relevant literature on past experience with EPI seeking to identify conceptual approaches to 'climate proofing'. Although strategies for EPI have demonstrated a varying degree of success[28], a number of useful notions have emerged. Some of the most relevant ones are explained below.

2.2 Exploring different strategies for climate proofing the EU budget

The literature on EPI suggests a number of themes and strategies of direct relevance to an exploration of climate proofing.

First is a focus on sectoral and economic policies. Most of the literature on EPI focuses on attaining environmental integration in sectoral policies. For example, one study dedicated specifically to climate change integration underlined the importance of designing proper institutions and applying procedural instruments (e.g. different monitoring, assessment and retrospective evaluations), which echo some of the key propositions in the general EPI literature. It also argues that climate policy integration will only be achieved when the opportunities for and limitations of reframing climate change as an economic driver are fully identified and utilised[29]; thus we require an economic case. This is an important finding as far as the EU budget and Cohesion Policy are concerned since they are both constrained by general budgetary principles (i.e. additionality, leverage effect, etc.) or pursue primarily socio-economic objectives. At the same time, however, it should be acknowledged that aligning the EU budget/Cohesion Policy with EU climate and energy objectives is justifiable in its own rights for policy coherence reasons, regardless of whether there is an economic case or not.

Second is the need for a 'green budget', a notion explored by several authors in the context of strategies and instrument for EPI. Lafferty refers to it as the provision of dedicated funding in order to achieve/develop a 'vertical environmental policy strategy' within a given sector or policy-making domain[30]. This corresponds to the findings of Mickwitz *et al.* referred to above, that the lack of adequate funding resources often constitutes one of the key barriers for achieving climate

[26] Ibid.
[27] See for example CEPS Task Force. 2009. For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.
[28] Lenschow, A. 2002. *New Regulatory Approaches to 'Greening' EU Policies*. European Law Journal 8(1) 19-37; EEA. 2005. Environmental policy integration in Europe. State of play and an evaluation framework. EEA Technical report 2/2005.; and IEEP. 2007. EPI at EU level – a Literature review. EPIGOV project.
29 Mickwitz et al. 2009. Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.
[30] Lafferty, W. 2004. From environmental protection to sustainable development: the challenge of decoupling through sectoral integration. In: Governance for sustainable development: the challenge of adapting form to function, edited by William M. Lafferty. Edward Elgar: Cheltenham.

integration in sectoral policy making.[31]Jacob *et al.* offer a similar instrumental interpretation of 'green budget' as 'an in-depth environmental evaluation as part of the annual budgetary procedure [which] can reveal spending that is contradictory to environmental objectives'[32] . This implies that it might not be sufficient to provide dedicated funding for environmental integration but that it is also necessary to ensure that remaining funding priorities do not have an adverse impact on the environment. Wilkinson therefore suggests that 'green budgeting' could be understood as a 'wide range of activities involving a diverse range of actors, institutions and instruments' within the entire budgetary 'life cycle'.[33]

Third, when the focus is on budgetary mechanisms, the 'life cycle' framework is useful. Various integration instruments can be deployed at each stage of the budgetary policy making process – in strategic planning, implementation, monitoring and evaluation. The instruments required for climate proofing in the short, medium and long terms may be of different types and the timing of their development may be important.

In this context, the exploration of potential instruments for climate proofing the EU Budget and Cohesion Policy will be framed by the following three options:

1. To increase the level of dedicated funding for climate change mitigation and adaptation options in a strategic way by creating **a new freestanding climate change funding instrument;**
2. To **increase the level of dedicated funding and increase the contribution of existing EU funding instruments** to climate change objectives by a process of integration; and
3. To increase the sensitivity of EU funding instruments to climate objectives and to minimize the level of activities potentially damaging to climate by **mainstreaming climate objectives horizontally into all funds.**

2.2.1 Dedicated sources of finance for climate change action

The EU budget is only one tool from the EU instrumentarium with which to pursue EU climate policy objectives. In order to justify the harnessing of EU funding to this end, one should determine why the EU budget is best placed to do so.

The EU budget review discussion evolves around a number of underlying principles:

- 'EU value added' (implying that that the EU should act only where there are clear additional benefits from collective efforts compared to action solely by individual Member States) ,
- 'Proportionate and flexible' (where EU-level action is appropriate, the policy instrument that is most suitable to delivering the policy objectives should be chosen and it should be proportionate and flexible); and
- 'Sound financial management' (implying that expenditure must be efficient and effective). [34]

[31] Mickwitz et al. 2009. Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.
[32] Jacob et al. 2008. Instruments for environmental policy integration in 30 OECD countries. In: Innovation in environmental policy? Integrating the environment for sustainability, Jordan and Lenschow (2008). Edward Elgar: Cheltenham.
[33] Wilkinson *et al.* 2008. Green budgeting. In : Innovation in environmental policy? Integrating the environment for sustainability, edited by Jordan and Lenschow. Edward Elgar: Cheltenham.
[34] Adelle et al. 2009. Understanding and influencing the EU budget. Final Report for the Environment Agency. IEEP: London.

The first two principles for the EU budget – to be proportionate and flexible and to demonstrate EU value added – are perhaps of primary importance to our discussion as they relate to the need to ensure that the budget is spent on the right things.

Besides the EU budget, there are other possible policy instruments to achieve policy objectives including regulation, market-based instruments, voluntary agreements etc. There are, however, a number of cases where neither 'hard regulation' nor 'soft law' is sufficient and financial incentives are required to induce Member States to adjust their policies to EU priorities.[35] These cases therefore provide a clear rationale for intervention through the EU budget.

The principle of 'value added', at the same time, should be discussed in relation to 'subsidiarity', 'redistribution' and 'solidarity'. The subsidiarity principle, for instance, is often used to justify action through the EU budget vis-à-vis transboundary issues such as climate change by the pooling of resources between Member States to take advantage of economies of scale. The redistribution argument justifies the EU budget to provide compensatory payments for disproportionate contributions to common EU goals. Additionally, redistribution can often result in some leverage effects. For example, each euro spent in Objective 2 regions[36] under Cohesion Policy leverages an additional three euros.[37] Finally, the solidarity principle is usually used to justify the provision of emergency relief to individual regions or Member States in the event of major natural disasters and constitutes a distinct type of EU action.

Furthermore, it could be argued that the currently prevailing political agenda for a transition towards a low carbon economy would require a massive shift in investments, in which EU funding will have to play a certain role.[38] Such investments could give impetus to new low carbon technologies and eco-innovation, seeking to provide a competitive edge and new sources of growth for the EU economy. In this sense, there might be essential spill-over effects for the economic and social domains, such as green jobs and skills, behaviour change, eradicating fuel poverty, etc.

There are two more arguments put forward by the CEPS with regard to justifying the EU budget to act on climate change.[39] The EU budget could provide loan guarantees to the European Investment Bank (EIB) in order to boost investments in traditionally high-risk, innovative and large-scale projects. Also, it is suggested that it could potentially facilitate a coordinated external action for international climate finance for developing countries. Essentially, the latter argument could be valid seen through the lens of the EU ambition to strengthen its position as a global player.

The current 2007-2013 EU financial perspectives provide some support for climate change related actions under different funding instruments (e.g. Cohesion Policy, TEN-E, CAP, etc.). This is done under an 'integrated' approach in the sense that there is no specific 'climate change' funding instrument in the EU budget, but rather 'climate change related' categories of expenditure in other funding instruments. Concerns have been voiced as to whether this approach provides an adequate level of financial resources for climate change and constitutes an effective tool to achieve concrete results.

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[35] Jouen, M. and Rubio, E. 2007. Synthesis Paper. Seminar 'The EU Budget: What for?', 19/04/2007, Brussels.
[36] See chapter 4
37 CEC. 2004. Financial Perspectives 2007-2013. (COM(2004)487), Brussels: 14/07/2010
38 Medarova, K. 2009. Climate, cohesion and delivering EU value. In: Unlocking a low-carbon Europe: perspectives on EU budget reform, by Green Alliance: London.
39 CEPS Task Force. 2009. For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.

Therefore, the scaling up of more explicitly dedicated Community funding for climate change actions would perhaps be the simplest way to climate proof the EU budget. There are generally two ways to do this. The first would be by **strengthening the current 'integration' approach in already existing EU funding instruments** (e.g. CAP, Cohesion Policy, etc). This would imply a substantial reform of these funding instruments in order to establish clear climate change priorities and scale up, in some cases significantly, the support they provide for climate actions.

The second way is to **establish a new funding instrument** entirely dedicated to climate change (similar to LIFE+ which is designed to target financial support exclusively on environmental measures). Such a proposition would imply the introduction of a novel instrument in the current financial perspective and therefore raises a number of questions regarding the scale, scope, design, substance and delivery mechanisms of such a new fund.

Providing dedicated financing for climate change action could settle the issue of the role of public investments in achieving Community policy objectives, but it would be insufficient if we aim to ensure that the EU budget is fully 'climate proofed'. A complementary strategy to this end would involve revisiting other non-climate related spending activities so as to ensure that the latter are also in line with the established climate objectives and do not undermine them. In other words, an additional strategy which ensures that climate change considerations are horizontally 'mainstreamed' across the entire EU budget portfolio would be required.

2.2.2 Horizontal 'mainstreaming' of climate change

Here, the literature on environmental integration and policy coherence comes in useful – some conceptual thinking and established approaches can be borrowed and tailored to the specifics of the EU budget. Although much EPI literature explores policy integration strategies and tools in the wider sense of environmental objectives and concerns, many of these can be useful in developing our conceptual approach specifically targeting climate change mitigation and adaptation.

A **normative** approach to climate change 'mainstreaming' would entail establishing the policy goals and funding priorities in terms of sectoral and budgetary agenda setting. Perhaps the most straightforward approach to this is offered by Lafferty and Hovden[40] who suggest that environmental integration should be given a *de facto* priority in policy making. This, however, is unlikely to be the case in practice in a sectoral domain; therefore, the question of adequate weighting of environmental against sector-specific goals becomes more relevant[41]. For instance, here we can go back to the question raised previously – given the wide array of spending activities, should the EU budget be carbon neutral or carbon saving?

Hertin and Berkhout[42] have argued that 'mainstreaming' should not mean simply 'layering' environmental objectives on top of other policy objectives but rather removing organisational barriers so that compatible policy objectives and 'positive sum' solutions are identified. However, it remains unclear how to tackle competing policy goals, such as climate change and transport development. The literature on policy coherence could be useful here, offering ways to reconcile

[40] Lafferty, W and Hovden, E (2003) *Environmental Policy Integration: Towards an Analytical Framework'*. Environmental Politics 12(3)1-22.
[41] Liberatore, A. 1997. The integration of sustainable development objectives into EU policy making: barriers and prospects'. In: The politics of sustainable development edited by Baker, Kousis and Richardson and Young. London: Routledge.
[42] Hertin, J. and Berkhout, F. 2003. Analysing Institutional Strategies for Environmental Policy Integration: The Case of EU Enterprise Policy. Journal of Environmental Policy and Planning, 5 (1) 39-56.

such divergent and competing policy goals. It has been argued that integrating climate change and other policy objectives does not mean choosing between them but rather 'enabling a process by which both aims and means can be redefined so that new win-win situations can be determined'.[43]

Hertin and Berkhout also argue that sectoral policy initiatives tend to be formulated with little regard to the environment due to 'deeply rooted institutional factors', which create bias towards policies unable to exploit the eco-efficient potential of modern technologies and develop policies which would be able to mobilise this potential. Lenschow and Jordan[44] have suggested that policies would be 'environmentally integrated' when 'non' environmental actors acknowledge the consequences of sectoral policies on the environment and undertake actions to correct these. One way to do this is by **reforming or creating appropriate governance structures and routines**[45]. It is argued that institutional reforms often frame changes in political and administrative decision-making, which could ensure ownership and coordination of the integration process as well as improve coherence in policy outputs.

At this more operational level, besides an institutional approach to environmental integration, a **procedural** one would be complementary. This implies that a set of procedural instruments such as strategic environmental assessment could aid sectoral policy makers in enhancing environmental policy integration. According to Jacob *et al.*, effective use of these tools could have the most immediate influence on EPI as they can affect the substance of policy decisions and hence pose 'the greatest challenges to decision-makers'.[46]

By building on the typology developed by Jacob *et al.*, we could adapt it to the concrete case of climate proofing the EU budget and Cohesion Policy, so that a 'mainstreaming strategy' would entail the following types of policy integration instruments:

- **Substantive instruments**

These could entail setting out policy frameworks which communicate vision, objectives and priorities that aid the agenda-setting process so climate change objectives could be reconciled with wider economic and social ones, e.g. strategies, guidelines, conditionalities, etc.

- **Institutional instruments**

These could encompass restructuring institutions, the creation of special units dealing with cross cutting issues such as climate change, inter-ministerial coordination bodies and consultative working groups.

- **Procedural instruments**

Procedural instruments could materialise in the form of project selection, monitoring, reporting, assessments and evaluation procedures.

[43] Whinship C. 2006. Policy analysis as puzzle solving. In: The oxford handbook of public policy, edited by Moran et al. , Oxford University Press, 109-123.
[44] Lenschow, A and Jordan, A. 2000. *'Greening' the European Union: What can be Learned from the 'Leaders' of the EU Environmental Policy?* European Environment 10, 109-120.
[45] See Lenschow 2002, Hertin and Berkhout 2003, Jacob et al. 2008
[46] Jacob et al. 2008. Instruments for environmental policy integration in 30 OECD countries. In: Innovation in environmental policy? Integrating the environment for sustainability, Jordan and Lenschow (2008). Edward Elgar: Cheltenham.

2.2.3 Climate proofing the life cycle of the EU budget taking into account the multi-level governance context

The **life cycle perspective** is useful when exploring practical means of integration. Back in 1994, Collier[47] suggested that EPI could occur at three stages of a general policy making cycle – policy formulation, measures and implementation. Similarly, in the context of the EU budget, Wilkinson *et al.* set out a budget 'life cycle' consisting of five stages which together constitute an 'interlinked and adaptive fiscal process'[48] and which can be used to analyse the budgetary processes of any state from the perspective of environmental integration. These stages are identified to be:

- Strategic planning and setting expenditure priorities;
- Formal adoption of the annual budget;
- Implementation of the budget;
- Monitoring, evaluation and reporting; and
- Raising revenue.

Such a life cycle approach might not be comprehensive enough to embrace the full set of complexities of the policy making process. However, it is valuable as it reminds us that integration needs to occur both at the strategic and more operational stages of the policy cycle and that an interactive process is required.

Furthermore, this policy process occurs in a complex **multi-level governance** context which involves both the different vertical levels of governance within Europe (EU, national, regional and local), and in a horizontal plane a diverse range of policy actors and their vested interests at each level.[49,50] Lenschow and Jordan, and Mickwitz *et al.* note that a successful environmental /climate integration can only be achieved if explored and addressed properly at all governance levels within EU policy.[51] The EU budget and Cohesion Policy are no exception, given that Member States have extensive competence for the implementation of EU funded programmes and projects, which have been further enhanced through the decentralisation agenda, creating both an opportunity and a challenge to EPI[52]. National and regional circumstances, such as the maturity of domestic regulatory frameworks, level of political commitment will affect the outcome of an integration process and need to be taken into account from the outset.

The complexities of multi-level governance add to the importance of good timing in an integration strategy. Climate proofing should be seen as a continual process which entails the application of different substantive, institutional and procedural approaches at each stage of the policy cycle. In this sense, it is not a linear process but rather it is intended to provide feedback loops and spur policy learning in the long term.

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[47] Collier, U. 1997. Energy and Environment in the European Union. Aldershot, Ashgate.

[48] Wilkinson *et al.* 2008. Green budgeting. In : Innovation in environmental policy? Integrating the environment for sustainability, edited by Jordan and Lenschow. Edward Elgar: Cheltenham.

[49] Jordan, A and Schout, A. 2005. *Coordinated European Governance: Self-Organizing or Centrally Steered?* Public Administration 83(1)201-220.

[50] Nikvist, B. 2008. EPI in Multi-Level Governance- A Literature Review. EPIGOV Papers 30. Stockholm Environment Institute, Stockholm.

[51] Lenschow, A and Jordan, A. 2000. *'Greening' the European Union: What can be Learned from the 'Leaders' of the EU Environmental Policy?* European Environment 10, 109-120. And Mickwitz et al. 2009. Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.

[52] Wilkinson *et al.* 2008. Green budgeting. In : Innovation in environmental policy? Integrating the environment for sustainability, edited by Jordan and Lenschow. Edward Elgar: Cheltenham.

A climate proofing strategy will evolve and change over **time** as the concrete objectives and targets for integration will evolve, as they are bound to do. For instance, up until 2013 there are a number of preparatory activities that need to be undertaken to plan for the future EU budget. In the post 2013 EU budget period the priority might be to stimulate enhanced investment in climate change to bring about the necessary transformation of critical economic sectors and build up the resilience of systems. However, a long term post-2020 strategy might entail less public support from the EU budget and more innovative financial sources while retaining and strengthening the potential mainstreaming strategy in terms of planning, governance and procedural instruments.

3 Opportunities for climate proofing the EU budget

In order to assess the opportunities and develop strategies for 'climate proofing' the EU budget, it is desirable to have an overview of the EU budget 'life cycle'.[53,54] A very helpful analytical framework for thinking about any budgetary process has been put forward, that provides a survey of what has been done so far by different jurisdictions, including the EU, to 'green' public spending and revenue-raising.

3.1 Strategic planning and expenditure priorities

Most EU Member States now engage in setting multi-annual spending priorities over the medium term. Since 1988, this is also the case for the EU as a whole and so far four 'multiannual perspectives' have been adopted, each lasting five to seven years. These are now referred to as 'multiannual financial frameworks'. The multiannual financial framework (MFF) sets an overall budgetary ceiling to keep expenditure within the Community's 'own resources' and in this way forms an overarching framework for the negotiations between the Commission, the Council and the Parliament on the annual budgets for the duration of the financial framework. The Lisbon Treaty introduced a number of changes in relation to budgetary and financial matters.[55] They include the formalisation of the practice of drawing up a MFF by introducing this in the Treaty of the Functioning of the European Union (TFEU)[56] as well as the procedures through which the framework should be adopted.[57]

The MFF determines the annual ceiling on commitment appropriations by category of expenditure and the annual ceiling of payment appropriations (Art. 312 § 3 of the TFEU). It also specifies that the categories of expenditure in the financial framework must be limited in number and correspond to the Union's major sectors of activity. So far, agreed financial frameworks have been enshrined in the so-called inter-institutional agreement between the EU institutions. With the ratification of the Lisbon Treaty, financial frameworks will henceforward be adopted through a dedicated multiannual financial framework Regulation.[58]

It is worth examining the development of the existing MFF. Wilkinson *et al.* observe that 'it has not always been clear what overarching principles and policy strategies are considered in the determination of multi-annual expenditure allocations, what the machinery through which these decisions are made, and which DGs are involved'. The priorities of the current MFF were proposed in a Commission Communication 'Building our common future: policy challenges and budgetary means

[53] IEEP. 2005. Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.
[54] Wilkinson et al. 2008. Green Budgeting. In: Innovation in Environmental Policy? Integrating the Environment for Sustainability, edited by Jordan and Lenschow, Edward Elgar, Cheltenham.
[55] CEC. 2010. Proposal for a regulation of the European Parliament and of the Council amending Council Regulation (EC, Euratom) No 16/05/2002 on the Financial Regulation applicable to the general budget of the European Communities. (COM(2010) 71) Brussels, 3/3/2010.
[56] The Treaty on the European Union and the Treaty on the Functioning of the European Union together make up the Lisbon Treaty. Provisions on the budget are contained in Title II 'Financial Provisions' of Part 6 'Institutional and Financial Provisions' of the TFEU.
[57] The Council adopts the multiannual financial framework through a « special legislative procedure » acting unanimously after obtaining the consent of the EP (Art. 312 § 2).
[58] European Commission, Financial programming and budget. A Financial framework for the enlarged Union (207-2013) http://ec.europa.eu/budget/prior_future/fin_framework_en.htm

of the enlarged Union 2007-2013'[59] and later translated into budgetary 'headings'[60] in the follow-up Communication 'Financial perspectives 2007-2013'[61] and adopted by the Council in 2005.[62] The expenditure is grouped under four headings 'designed to reflect the Union's political priorities'. These are: *sustainable growth* (including competitiveness for growth and jobs in line with the Lisbon Strategy as well as Cohesion Policy); *preservation and management of natural resources*; *citizenship, freedom, security and justice*; and the *EU as a global player*. The table below shows the commitment and payment appropriations per heading per year as well as the total amount of commitment and payment appropriations for the 2007-2013 financial perspectives.

Table 1:

Financial framework 2007–2013

Expenditure ceilings per heading

(EUR million, current prices)(1)

Commitment appropriations (2)	2007	2008	2009	2010	2011	2012	2013	Total
1. Sustainable growth	54 405	57 275	59 700	61 782	63 614	66 604	69 621	**433 001**
1a. Competitiveness for growth and employment	*8 918*	*10 386*	*11 272*	*12 388*	*12 987*	*14 203*	*15 433*	***85 587***
1b. Cohesion for growth and employment	*45 487*	*46 889*	*48 428*	*49 394*	*50 627*	*52 401*	*54 188*	***347 414***
2. Preservation and management of natural resources	58 351	58 800	59 252	59 726	60 191	60 663	61 142	**418 125**
3. Citizenship, freedom, security and justice	1 273	1 362	1 523	1 693	1 889	2 105	2 376	**12 221**
3a. Freedom, security and justice	*637*	*747*	*872*	*1 025*	*1 206*	*1 406*	*1 661*	***7 554***
3b. Citizenship	*636*	*615*	*651*	*668*	*683*	*699*	*715*	***4 667***
4. The EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	**55 935**
5. Administration (4)	7 039	7 380	7 699	8 008	8 334	8 670	9 095	**56 225**
6. Compensations for Bulgaria and Romania	445	207	210	--	--	--	--	**862**
Total	**128 091**	**131 487**	**135 321**	**138 464**	**142 445**	**147 075**	**151 886**	**974 769**
Commitment appropriations (2), % of GNI (3)	1.06 %	1.06 %	1.05 %	1.03 %	1.01 %	1.00 %	1.00 %	**1.03 %**
Payment appropriations (2), % of GNI (3)	1.02 %	1.04 %	0.95 %	0.99 %	0.95 %	0.96 %	0.94 %	**0.98 %**

The 'transparency' of EU budgeting has however been subject to some criticism not least in the context of accounting for environmental expenditure. Wilkinson observes, generously, that the definitions of expenditure in the current financial framework are 'not always precise'.[63] Phrases like 'sustainable growth', which is one of the categories of spending, do not refer to environmental sustainability but mainly to the Lisbon Process for jobs and growth and the structural funds, while 'conservation and management of natural resources' is overwhelmingly dominated by spending on the CAP. The CAP and regional policy together account for some 80 per cent of Community spending. This suggests that one *sine qua non* aspect of climate proofing the EU budget in the future

[59] CEC. 2004. Building our common future: policy challenges and budgetary means of the enlarged Union 2007-2013' (COM(2010)101/2), Brussels, 26/2/2004.

[60] Headings refer to the maximum amount of commitment appropriations in the EU budget each year for broad policy areas.

[61] CEC. 2004. Financial perspectives 2007-2013'. (COM(2010)487), Brussels, 14/7/2004.

[62] Council of the European Union. Financial perspectives 2007-2013. 15915/05, 19/12/2005

[63] IEEP. 2005. Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.

will be to provide much greater transparency in the categorisation of spending and its relationship to the priorities of a given MFF. [64] If broad categories of the present kind continue in the next MFF, one possibility is to include a new one concerned specifically with climate change, however expressed.

The extent to which a systematic attempt has been made to assess the impact of the MFF on environmental policy goals is not clear. Wilkinson notes that an impact assessment of the draft legislation covering the 2007-2013 financial perspective was planned, based on the Commission's Impact Assessment Procedure.[65] An initial exploration of the Commission's website did not readily yield this, but this could be investigated further, together with the scope this might have had. It is unlikely to have included a specific assessment in relation to climate policy goals. Moreover, Wilkinson (undated draft, p. 2) notes that 'the EU's SEA Directive (2001/42) explicitly excludes from its scope – without any attempt at justification – 'financial budget plans or programmes', a privileged status additionally accorded only to defence activities (Art. 3(8))'.

So, have there been any attempts to assess the overall impact on mitigation and adaptation efforts of the last MFF as would be useful in the context of the negotiations of the upcoming budget? Would it make sense to argue that the MFF should aim to promote outcomes that stay within a certain envelope of emissions? A similar question could be raised in the context of the annual budget. The MFF could be the right frame in which to ask the question since this is when strategic directions are decided, and climate change is at least on a par with agricultural and regional policy concerns. Institutional players putting forward formal proposals in negotiation of the constituent parts of the budget could be required to show likely impacts in terms of greenhouse gas emissions and possibly also measures that could be taken to address vulnerabilities.

While the *priorities* for the MFF, and its *overall impact* are important, we must also consider the nature of spending categories dedicated to strategic priorities and the balance between them in the distribution of spending.

So how should the importance of climate change be reflected in the expenditure categories – should there simply be a category entitled 'climate change'? The structure of EU spending is different from that of most Member State spending, which tends to be dominated by policy areas like health and education that have comparatively modest environmental impacts. However, EU spending is dominated by the CAP and regional policy, both of which have substantial environmental impact. Environmental policy has tended to be a relatively modest spending area, partly because legislation has such a major role. Clearly, the mix of instruments chosen to achieve policy goals can make a lighter or heavier imprint on the budget. What are the implications for the categories expenditure in the post-2013 financial framework, and for the balance of spending between them?

[64] This will have to be done in a way which clearly links any new categorisations to the past so that the historical perspective is not lost. It is worth mentioning in this context that it is currently difficult to know exactly how much is spent on climate change. Two additional factors, apart from the more general comments above about lack of transparency in the EU budget, contribute to this: the current multiannual framework was established prior to the current political focus on climate change, this is compounded by the more endemic, methodological problem of how to identify and separate out the specifically environmental dimension of any spending. In a world where it is increasing politically advantageous to be able to claim spending on the environment in general and climate change in particular, this is likely to lead to some overstatement of actual funding. It is therefore important to address this going forward.

[65] IEEP. 2005. Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.

3.2 Formal adoption of the annual budget

While the MFF defines strategic priorities, high-level spending priorities and the overall allocation ceiling for each year, the annual budget specifies in more detail the allocation to specific 'activities' (or 'policy areas').

The financial year coincides with the calendar year. The TFEU specifies the legislative procedure through which the budget must be adopted and sets out a timetable:

- Before 1st July each institution must draw up estimates of its expenditure for the following financial year. These are consolidated by the Commission;
- By 1st September the Commission must submit a proposal for the draft budget to the EP and Council;
- By 1st October the Council must adopt its position; and
- Within 42 days after that the EP must adopt its position.

Three-level architecture emerges: the 'priorities' of the MFF, into which the different 'categories' (or 'headings') fit, and finally the separate policy areas (or 'titles') of the annual budget which each may contribute to several of the MFF headings.[66]

The European Parliament's most extensive, longest-established powers are those on the budget.[67] We can therefore expect the Parliament to continue to take a keen interest in this and the MFF. The EP's negotiations with the Council and the Commission over the budget are led by the Parliament's Committee on Budgets. Until the ratification of the Lisbon Treaty (and with it the TFEU), the EP was only consulted by the Council over 'compulsory' expenditure (mainly the CAP), but in relation to most other ('non-compulsory') spending, the Parliament had the final say and could insist on increasing expenditure within an agreed ceiling; reduce expenditure; or temporarily block spending subject to the fulfilment by the Commission of certain conditions.[68] With the TFEU, the distinction between compulsory and non-compulsory spending has been abolished. The annual budget must be established according to a 'special legislative procedure' (Art. 314). A series of processes are then given in case agreement is not reached (Art. 314 §4-8) as well as provisions for circumstances when the budget has not been agreed by the beginning of the financial year (Art. 315).

Looking ahead to the post-2013 financial perspectives, the European Parliament established a special Committee in July 2010. The so called SURE committee is tasked with establishing the policy challenges and budgetary resources for a sustainable European Union after 2013 by *inter alia* defining Parliament's priorities for EU's next long-term budget framework, in both political and budgetary terms, estimating how much money the EU will need to achieve its objectives, defining the duration of the next long-term budget framework and drawing up guidelines on how resources should be distributed within and between different parts ('headings') of the EU budget. The ultimate purpose of this Committee is to provide the Budgets Committee with a basis for the forthcoming MFF negotiations. [69]

[66] See « 2011 draft budget by financial framework heading (detailed) in CEC (2010) op.cit., p. 67-72.
[67] IEEP. 2005. Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.
[68] Ibid.
[69] European Parliament. Conference of Presidents paves the way to creating a special committee on EU budget reform, Press release, 20/05/2010, http://www.europarl.europa.eu/news/expert/infopress_page/034-74872-140-05-21-905-20100520IPR74871-20-05-2010-2010-false/default_nl.htm

Some analysts have underlined the importance of the Parliament's capacity to impose 'external conditionality' on different areas of spending, both in the annual budget negotiations, and through an ex ante and ex post review of the climate change related implications of spending plans and actual expenditure and revenue raising. The first lever is very strongly dependent on the political capital of the Environment Committee and its relationship to the Committee on Budgets. In 2000, the Environment and Budgets committees were able to get the Commission to put pressure on Member States to the effect that Structural Funds money would only be forthcoming if certain requirements in relation to the Habitats and Birds Directives were fulfilled. A parallel example of external conditionality in the agricultural policy field arose in respect to compliance with the Nitrates Directive.[70] These examples suggest what might be done to climate proof the budget at the budget implementation stage which is the subject of the next section.

However, in terms of the *adoption* of the annual budget these examples simply tell us that when the Environment Committee has sufficient influence, it can seek to use the (negative) powers of Parliament to block funding, to impose certain amendments. It is highly dependent on the political capital and focus of the Committee which will vary. Climate proofing the budget will need to be more solidly embedded institutionally. Are there other levers that could be pulled during/as part of the annual budget adoption exercise – or should we look elsewhere in the cycle for effective mechanisms?

3.3 Implementation of the budget

It is the Commission 'in cooperation with the Member States' which implements the budget (TFEU, Art 317). This should be done in accordance with the Financial Regulation (TFEU, Art. 317; Art. 322 §1). While this sounds simple, a 2004 evaluation for the Commission found no less than six different approaches to managing EU spending programmes. However, in the order of 80 per cent of EU expenditure is spent by the governments of Member States or by regional and local authorities and partnerships, and there is often considerable discretion on how to spend it.[71] This applies to both the ERDF and the CF – they are funding instruments that are implemented *within* Member States, mostly by sub-national authorities.

A helpful distinction can be made between 'decentralisation of spending' (when decisions on detailed programmes and projects are devolved to lower tiers of governments) and 'deconcentrated spending' (where some EU-level autonomous institutions or agencies, e.g. EIB, make their own detailed expenditure decisions within broadly defined parameters). To better steer decentralised expenditure, an increasingly diverse range of controls have been introduced by the Commission over the last 20 years.[72] It should be noted that this has been driven both by the desire to ensure financial accountability and policy effectiveness, including the effectiveness of environmental policy. The effectiveness of such controls depend on the political will of the Commission, and perhaps more importantly on the available resources for monitoring and enforcement.

An overview of the types of instruments which the Commission has used to control decentralised spending so far is provided below. This account needs updating (e.g. in light of the Lisbon Treaty),

[70] IEEP. 2005. Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.
[71] Wilkinson et al. 2008. Green Budgeting. In: Innovation in Environmental Policy? Integrating the Environment for Sustainability, edited by Jordan and Lenschow, Edward Elgar, Cheltenham.
[72] Ibid.

but the set of seven instruments outlined below remain relevant and will be considered in more detail for two of the funds in the next Chapter[73]:

- *Requirements for national and regional strategies and programmes:* since the end of the 1990s there has been an increasing emphasis on strategic planning in relation to decentralised expenditure, which has provided the Commission with a basis for exerting greater influence over spending priorities at the Member State level. These developments culminated in the creation of legally binding guidelines for both regional and rural development funds in the context of the development of the current multiannual financial framework. These regulations will be discussed in more detail in the next chapter;

- *Management structures for vertical integration:* this refers to requirements for administrative structures and procedures that have to be put in place in Member States to manage spending and which incorporate a number of control mechanisms that constrain the discretion of national governments and give the Commission a number of opportunities to influence how funds are spent (regional partnerships, the inclusion of environmental authorities in such partnerships, the establishment of Programme Monitoring Committees on which members of the Partnership, and the Commission, are to be represented)[74];

- *Direct Commission intervention in monitoring and control:* direct Commission intervention in Member States to ensure money is being spent appropriately, or that EU Regulations are being respected, which is highly unusual and is politically very sensitive;

- *Financial incentives for environmental policy integration:* this is another example taken from the context of the Structural funds. Here the programme managing authorities have discretion to increase the rate of support to particular projects which demonstrate particular benefits, including in relation to environmental protection. Centrally the Commission retains 4 per cent of the structural funds budget which can be used to reward good practice by Member States in the context of the mid-term review of programmes. This could include efforts in relation to mainstreaming the environment. However, this does not appear to have been taken into account in the context of the midterm review of the 2000-2006 programmes;

- *Monitoring, reporting and evaluation:* All Structural funds and rural development programmes are subject to *ex ante*, mid-term and *ex post* evaluations for which there are Commission guidelines and which should include assessment of environmental impacts. Importantly *ex ante* evaluations provide the opportunity for improving programmes from an environmental perspective, but is has been observed that the quality has been variable and the results have not been sufficiently integrated into programme development;

- *'External' conditionality:* This refers to the practice of withholding funding in order to put pressure on Member States to secure Community-level policy objectives which may or may not be related to the expenditure in question.

[73] IEEP. 2005. Environmental policy integration: scoping the role of EU budgetary mechanisms and Funding. A discussion paper. 22 June 2005.
[74] Wilkinson et al. 2008. Green Budgeting. In: Innovation in Environmental Policy? Integrating the Environment for Sustainability, edited by Jordan and Lenschow, Edward Elgar, Cheltenham.

3.4 Monitoring, evaluation and reporting

Monitoring, evaluation and reporting is essential for scrutiny purposes, during and after spending. To the extent that the material is publicly available, it offers the possibility of mobilising other societal actors than those close to the spending programme and can facilitate a public debate about priorities, effectiveness, potential unintended consequences etc.

There are several levels to this. Title II of Part 6 of the TFEU on Financial Provisions contains some overarching provisions (Art. 310). §5 states that the budget must be implemented with the principle of 'sound financial management' and that Member States must co-operate with the Union to ensure that the appropriations entered in the budget are used in accordance with this principle. This theme is picked up again in Chapter 4 of Title II which covers the implementation of the budget and its discharge (or signing off). Article 317 states that the Commission must 'implement the budget in cooperation with the Member States, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management'.

The Regulations in question refer to the Financial Regulation which determines the procedure for establishing and implementing the budget and for presenting and auditing accounts. It is the EU's point of reference for the principles and procedures governing the establishment and the implementation of the EU budget.[75] It has a horizontal character and is applicable to all areas of expenditure and all revenue.[76] Under the TFEU, the Financial Regulation is to be adopted by the European Council and the Parliament acting in accordance with 'ordinary legislative procedure' and after consulting with the Court of Auditors (Art. 322).[77]

Chapter 4 (Art. 318) of Title II provides for the Commission to submit, on an annual basis, to the Parliament and to the Council, the accounts of the preceding financial year relating to the implementation of the budget, as well as a financial statement of the assets and liabilities of the Union. The Commission is also required to submit an evaluation report on the Union's finances based on the results achieved.

[75] European Commission. Financial programming and budget. Sound financial regulation. http://ec.europa.eu/budget/documents/financial_regulation_en.htm#table-2_2

[76] CEC. 2010. Proposal for a regulation of the European Parliament and of the Council on the financial Regulation applicable to the general budget of the European Union (Recast). COM(2010)260 final, Brussels, 28.5.2010.

[77] A set of 'Implementing Regulations' contain detailed and more technical rules, essential for the day to day application of the Financial Regulation http://ec.europa.eu/budget/documents/financial_regulation_en.htm#table-2_2 . The Financial Regulation should only contain the fundamental principles (FR, Title II) and the basic rules of budgetary and financial management, leaving the details to be specified in the Implementation Regulation and soft law such as internal guidelines (CEC (2010) op. cit., p.2). The Financial Regulation contains three parts: Common Provisions (8 titles), Special Provisions (7 titles) and Transitional and Final Provisions. Title II of part 2 covers the structural finds, cohesion fund, European Fisheries Fund and European Fund for Rural Development. The Implementing Regulation is adopted by the Commission under the delegated powers according to Article 290 TFUE. The Financial Regulation is normally revised every three years. The TFUE changes the legislative procedure through which this is done (CEC (2010) op. cit., p.1). It is worth noting that the Financial Regulation and the Implementing Regulation are currently both being revised and that this is taking place in the context of and over the same time frame as the preparation for the post-2013 programmes is also taking place (CEC (2010) op. cit., p.2). The ensemble of interlinked changes to the FR and IR are covered in COM(2010) 71; COM(2010) 85; COM(2010) 260; SEC(2010) 639).

Article 318 states that this should be done in relation to the indications given by the European Parliament and the Council pursuant to Article 319. This article positions the Parliament as the institution which gives discharge of (or signs off) the annual budget post hoc, albeit acting on a recommendation from the Council. The evidence base for the discharge includes the annual accounts, the financial statement, the Article 318 evaluation report, the annual report by the Court of Auditors, replies by institutions under audit to the observations of the Court of Auditors, a statement of assurance by the Court of Auditors as to the reliability of the accounts and the legality and regularity of the underlying transactions, and any relevant special reports by the Court of Auditors.

In addition the Parliament can ask the Commission to give evidence with regard to the execution of expenditure and the operation of financial control systems. The Commission is required to furnish this evidence, and it is also required to 'take all necessary steps' to act on the observations in the decisions giving discharge and other observations by the Parliament relating to the execution of expenditure as well as on comments accompanying the recommendations on a discharge adopted by the Council. The Parliament or the Council can require the Commission to report on steps taken to address such observations and comments.

These provisions together seem to offer considerable scope for scrutiny of the annual budget. It is the responsibility of the Budgetary Control Committee to review the Commission's spending in previous years, and to give a formal discharge to the EU's budget (distinct from the Budgets Committee). Part of its formal remit is to review the 'cost-effectiveness' of expenditure programmes, a concept the Committee, according to Wilkinson, has interpreted narrowly so that its role in practice has been restricted to financial audit. A major obstacle to widening the role of the Committee is encountered, in that the Parliament's Committees are principally legislative as opposed to investigatory in character. A brief examination of Articles 318 and 319 of the TFEU, however, would suggest that there is an opportunity for Parliament to ask substantive questions as well and that more opportunity for scrutiny exists, also in substantive terms.

However, any intervention would be post-hoc and limited to inform 'policy learning' in relation to future budgets. It would not correct any mistakes already made. Also, in line with observations made above in the context of the *adoption* of the budget, it relies on a) the political orientation and b) the political capital of the intervening institution. The question is whether there should be something more defined in the discharging process which requires either the Council, the Parliament or the Court of Auditors to pursue certain lines of enquiry, and indeed whether it would make sense, in the presentation of accounts, financial statement and/or the evaluation report, that certain information relating to climate change should be required.

According to Article 21 § 3 of the IR, all programmes or activities, including pilot projects and preparatory actions, where the resources mobilised exceed €5 million should be the subject of interim and/or *ex post* evaluation of the human and financial resources allocated and the results obtained in order to verify that they were consistent with the objectives set.[78] It is not clear whether the word 'results' also includes unintended effects (e.g. on the environment). DG Budget's 2004 evaluation guide[79] included 'consistency' among a set of 10 issues to be considered in orienting any evaluation (*ex ante, interim, ex post).* This was defined as 'the extent to which positive/negative

78 This does not apply to projects or actions conducted within activities for which the requirement may be met by the final reports sent by bodies carrying out the actions.

[79] European Commission. Evaluating EU activity. A practical guide for Commission services. http://ec.europa.eu/dgs/secretariat_general/evaluation/docs/eval_activities_en.pdf

spillovers on to other economic, social or environmental policy areas are being maximised/minimised'. It could be explored further whether there is a case for strengthening the climate related dimension of *ex post* and other evaluation and if so, how this should be done.

3.5 Raising revenue

We come now to the important issue of raising revenue. Chapter 1, Title II, Part 6 of the TFEU states that the Union must provide itself with the means necessary to attain its objectives and carry through its policies and that the budget must be financed wholly from 'own resources' (Art. 311). The Council can, acting in accordance with 'a special legislative procedure' and acting unanimously, and after consulting with the Parliament, either establish new or abolish existing categories of own resources. This has to be approved by Member States in 'accordance with their respective constitutional requirements.'

The means through which the Community can raise resources is limited. And there is also an overall upper limit on EU revenue raising (and therefore the budget) expressed as a percentage (1.23 per cent) of total Community Gross National Income (GNI).

The overall spending envelope for 2007-2013 is just under €974.8 billion.[80] For 2010 this figure was just under €141 billion. This amounts to some 1.18 per cent of total EU GNI.

The funds spent through the EU budget come from three main sources:

- Traditional Own Resources – duties that are charged on imports of products coming from a non-EU state (approximately 12 per cent of total revenue).
- A resource based on Value Added Tax (VAT) - a uniform percentage rate that is applied to each of the Member States' harmonised VAT revenues (approximately 11 per cent of total revenue).
- A resource based on Gross National Income (GNI) – a uniform percentage rate applied to the GNI of each Member State (approximately 79 per cent of total revenue).[81]

The relative contribution of these sources to the EU budget has changed over the years. Initially, the EU budget was funded by contributions directly from the Member States. However, of the current three sources, Traditional Own Resources have declined in recent years, as have VAT-based resources. However, while the GNI-based resource was intended to be merely a balancing item, it has become the largest source of revenue. This system of financing the EU budget, accompanied with an increasing number of corrections and special arrangements, forms the core of the '*juste retour*' discussions over which the EU budget negotiations often tend to come down to. Given the current trends for national budget cuts and austerity measures, the question of reforming the financing system of the EU budget resurfaces with new strength and potentially opens additional opportunities to introduce ideas for climate proofing the EU budget on the revenue side.

What is the potential for integrating the environment into EU revenue raising? More specifically, what is the potential for climate proofing EU revenue raising? The answer to this question revolves around whether some forms of revenue raising should be dropped and others included, and also whether some dimensions of the existing means of revenue raising should be modified. Such a consideration needs to take place against the background of the longstanding debate around green

[80] CEC. 2010. A financial Framework for the enlarged Union (2007-2013). European Commission website. http://ec.europa.eu/budget/prior_future/fin_framework_en.htm

[81] European Commission. Financial programming and budget. Where does the Money Come From? http://ec.europa.eu/budget/budget_glance/where_from_en.htm

tax reform, which essentially proposes that we should avoid taxing 'goods' and instead tax 'bads.' One dimension of this is the ambition to shift the taxation burden from labour to products. Previously, the Commission has examined a number of potential new revenue streams: a CO_2/energy tax, excise duties on mineral oil and/or tobacco and alcohol; a 'communication' tax on transport and telecommunications services;[82] changes to VAT revenue raising; taxing corporate income; energy taxation.[83] Others suggest additionally an EU levy on aviation fuel or related emissions, or revenue generation through emission trading, including the auctioning of future allowances. [84] Progress in this area may be difficult however as Member States are sensitive about taxation matters and because the decision-making process for changing categories of own resources requires Council unanimity and approval at the Member State level in accordance with Member State constitutions.

However, there is scope for gathering these arguments together in the context of the discussion about the budget review and the post-2013 multiannual framework. For example, the draft leaked Commission Communication on the EU budget review underlines the need to ensure a fair EU financing system through the development of a new, policy-oriented own resource, e.g. based on the auctioning of greenhouse gas emissions allowances within the EU ETS, for instance. A potential EU-wide carbon tax as a revenue for the EU budget is also being rumoured to be under consideration with the EU Budget and Climate Commissioners, Janusz Lewandowski and Connie Hedegaard, making media statements in support of such a tax. Yet, no concrete proposal has materialised so far. The issue is highly contentious with the UK, France and Germany vigorously opposing the idea. More recently, though, in his 'State of the Union 2010' address, Commission President Barroso, announced that the Commission plans to establish 'EU project bonds' as a new source of financing, in partnership with the European Investment Bank, for the financing of major infrastructure project. [85] In this sense, the reform of the revenue side is also relevant and could potentially form part of the discussion on strategies and instruments for climate proofing the EU budget.

82 CEC (2004a) in Wilkinson et al. 2008

83 CEC (2004b) in Wilkinson et al. 2008

85 José Manuel Durão Barroso President of the European Commission State of the Union 2010 Strasbourg, 7th September 2010, http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/10/411&format=HTML&aged=0&language=EN&guiLanguage=en

4 Opportunities for climate proofing the ERDF and Cohesion Fund

The focus of this chapter is on one policy area – Cohesion policy – and its structural instruments – the European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund (CF). Cohesion Policy takes up approximately one third of the EU budget and in this sense constitutes an interesting case for in-depth analysis. The aim here is to provide a similar mapping exercise along the policy cycle of Cohesion Policy and identify potential entry points for climate proofing, with the main emphasis on the ERDF and CF, and, to a lesser degree, on the European Social Fund (ESF) which is also part of Cohesion Policy but is designed in support of employment and social measures (article 162 of TFEU, former article146 of the TEC).

4.1 Cohesion Policy

The aim of EU Cohesion Policy historically has been to address regional disparities and bring structural change to the economies of less developed European regions. Article 174 of the TFEU (former Article 158 of the TEC) stipulates that: '*In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion*'. Therefore, Cohesion Policy and its funding instruments – the European Regional Development Fund and the European Social Fund – have traditionally pursued economic and social objectives (article 175 TFEU, formerly 159 TEC). The Cohesion Fund was established in 1993 and was intended to assist the four poorest Member States at that time (Greece, Ireland, Portugal and Spain, subsequently known as the 'cohesion countries') through projects in the field of transport and environment infrastructure. The creation of the funds somewhat coincided with the process for the reform of the Structural Funds at that time and therefore the goal of CF was perceived to be similar to that of the Structural Funds.[86]

Pursuing these objectives, however, produced certain environmental externalities in the form of increased greenhouse gas emissions, land use changes and ecosystem fragmentation. The Cohesion Fund was often seen to favour end-of- pipe solutions to environmental problems. Subsequently, the Structural Funds and the Cohesion Fund underwent a number of reforms, with the principle of environmental integration and the role of environmental investments gaining more prominence on the policy agenda. It resulted in declarative statements for a stronger regard for the environment and an enlarged environmental portfolio of the funds. Ultimately, it also led to the introduction of novel integration mechanisms such as environmental assessments and institutional restructuring which spurred to some extent policy learning.[87]

The new objective of 'territorial' cohesion was recently introduced by the Lisbon Treaty. A Green Paper on the subject was published in October 2008[88] and it was followed by a public consultation and a series of expert debates in an attempt to develop a definition of what territorial cohesion means and how it can be operationalised in practice. Much of the ongoing discussion on the definition and meaning of territorial cohesion lacks proper consideration of its environmental dimensions, although it can offer an interesting opportunity for interpretation of the concept from an environmental and climate change stand point. For instance, a 2010 EEA report called for a 'spatial representation of sustainability, which would mean that assessing policies in terms of the environmental dimensions of territorial cohesion could become an important step towards the

[86] Lenshcow, A. 1997. Variations in EC environmental policy integration: agency push within complex institutional structures. Journal of European Public Policy 4:1, March 1997: 109-27

[87] Lenschow, A. 2002. New Regulatory Approaches to 'Greening' EU Policies. European Law Journal 8(1) 19-37

[88] European Commission, 'Green Paper on Territorial Cohesion - Turning territorial diversity into strength', (COM(2008)616), 06/10/2008

better integration of environment and sustainability'.[89] Furthermore, the report provides valuable food for thought on how the concept of territorial cohesion could capture basic principles of sustainable development and underpin current policy debates on the future Cohesion Policy and the EU budget review. It also emphasises the usefulness of the concept to map potential synergies and conflicts between Cohesion Policy and environmental sustainability, which could better inform the process of setting priorities for EU funding. To a certain extent this debate could be useful as far as climate change is concerned, especially with regard to the 'territorially asymmetric' impacts which climate change is expected to have on different European regions.

4.2 ERDF and CF

The General Regulation 1083/2006/EC is the key legal act laying down general provisions for the ERDF and CF and setting out the **key principles** guiding the programming and implementation of the funds. It introduces **sustainable development and environmental protection** as horizontal principles in Article 17 which stipulates that '*the objectives of the Funds shall be pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environmen*t'. Recital 22 of the Preamble also calls for policy coherence by stipulating that the '*activities of the Funds and the operations which they help to finance should be consistent with the other Community policies and comply with Community legislation'*. The Regulation does not, however, include a reference to climate change *per se*, which is not surprising given that the CARE package was adopted two years after the adoption of the legislative package for Cohesion Policy.

Other key principles regard the responsibility for the implementation of EU funding programmes between the Member States and the Commission. This is guided by the shared management principle (Article 14), meaning that Member States are assumed to have the responsibility for the programming and implementation of national spending plans (National Strategic Referential Frameworks and Operational Programmes). The principle of additionality (Article 15) is also essential as it precludes EU funds from replacing national public financing and sets out the role of EU funds as one of co-financing. Another important principle is the partnership principle, embedded in Article 11, which for the first time recognises environmental partners as on a par with local/regional authorities and socio-economic partners. These are important principles which need to be taken into account in building a case for climate proofing the ERDF and CF. For instance, the implications of the principle of shared management would require devising a climate-proofing strategy which provides instruments to not only the EU institutions, but also Member States and their respective management authorities.

The 2007-2013 Cohesion Policy streamlined for the first time the application of different funding instruments under the same regulatory framework, targeting them towards **three objectives**. The **Convergence** objective is available to the EU's poorest Member States and regions, with a GDP below 75 per cent of the EU average. The objective covers 17 Member States – including all twelve 'new' Member States and 84 regions. The amount available under this objective for the current Financial Perspective (2007-2013) is €283 billion, representing 81.5 per cent of the total cohesion policy funds (that includes both ERDF and ESF, and the cohesion fund). The **Regional Competitiveness and Employment** objective aims to strengthen regions' competitiveness and attractiveness. All regions outside the Convergence objective are eligible under this objective. The total co-funding available for this objective is €55 billion, which represents 16 per cent of the funds available for Cohesion Policy (ERDF and ESF). The **European Territorial Co-operation** Objective aims to reinforce co-operation across national borders to promote common solutions to a range of shared economic, social and environmental problems. The total budget for the Territorial Co-operation

[89] European Environmental Agency (EEA). 'The territorial dimension of environmental sustainability: potential territorial indicators to support environmental dimension of territorial cohesion', Technical Report 9/ 2010

Objective is relatively small - with an allocation of €8.7 billion (2.5 per cent) of the funds' budget for the period 2007-2013 and can be financed only under the ERDF. The European Territorial Co-operation Objective is divided into three 'strands' - cross-border, transnational and interregional co-operation. The type of environmental project that may be supported, and the funding conditions, differ between each strand.

Table 2:

Objectives, Structural Funds and instruments
2007-2013

Objectives	Structural Funds and instruments		
Convergence	ERDF	ESF	Cohesion Fund
Regional Competitiveness and Employment	ERDF	ESF	
European Territorial Cooperation	ERDF		

Source: DG Regional Policy

For the first time since 2006, **Community Strategic Guidelines** on cohesion as set out in Council Decision 2006/702/EC were developed establishing a strategic framework for Cohesion Policy for the 2007-2013 budgetary cycle. They seek to set overarching EU priorities for the Member States' National Strategic Reference Frameworks and Operational Programmes, in particular in view of aligning these to the objectives of the renewed Lisbon Strategy through 'earmarking' EU funds towards these objectives. There are divergent opinions about the effectiveness of the earmarking approach, however it has been argued that it was in fact rather successful in targeting Community funding in support of EU strategic objectives.[90] Given that the successor to the Lisbon Strategy, Europe 2020, includes concrete reference to the 20/20/20 targets of the CARE package as one of its main headline targets, the earmarking exercise could be seen as a way to harness a fair amount of Community funding in support of climate change objectives.

Furthermore, the Community Strategic Guidelines contain stronger language calling for strengthening synergies between environmental protection and growth, stressing that environmental (including climate) measures can have numerous ancillary benefits on competitiveness, innovation, energy security and job creation. It recommends a number of concrete measures which can be supported by EU funds in this respect, *inter alia* energy conservation, renewable forms of energy, and the promotion of rail and environmentally-friendly modes of transportation in cities, as well as protection against certain environmental risks (desertification, droughts, fires, and floods).

In the current 2007-2013 budgetary period the **European Regional Development Funds** (ERDF) is arranged in Council Regulation 1080/2006/EC. The aim of the ERDF is to promote competitiveness and innovation, create and safeguard sustainable jobs and ensure sustainable development through investments in SMEs, infrastructure, local development initiatives and technical assistance. It also builds upon the previous URBAN Community initiative and therefore can support measures for

[90] EPRC. 2006. Strategic planning for structural funds 2007-2013. A review of strategies and programmes. IQ-net thematic paper N.18(2), September.

sustainable urban development *inter alia* the rehabilitation of the physical environment, brownfield redevelopment and the preservation and development of natural heritage.

There are a number of **climate related measures** which could be financed with ERDF's support under the current financial perspective:

Table 3: Environmental measures eligible for co-financing under the ERDF, 2007-2013

Objective	Environmental measures eligible for co-financing under the ERDF
Convergence	**Research and technological development, innovation and entrepreneurship** (Article 4.1): • clean technologies and environmental research and innovation. **Environment** (Article 4.4): • mitigation of climate change effects; and • aid to SMEs to promote sustainable production patterns through the introduction of cost-effective environmental management systems. **Prevention of risks** (Article 4.5): • development and implementation of plans to prevent and cope with natural and technological risks[91]. **Transport** (Article 4.8): • integrated strategies for clean urban transport; • better modal balance; and • reduction of environmental impacts. **Energy** (Article 4.9): • improvement of energy efficiency; and • development of renewable energies.
Regional Competitiveness and Employment	**Innovation and Knowledge Economy** (Article 5.1): • introduction of new and improved products, processes and services on the market by SMEs; and • integration of cleaner and innovative technologies in SMEs. **Environment and risk prevention** (Article 5.2): • energy efficiency, renewable energy sources and energy efficient management systems; • clean and urban public transport; and • development of plans and measures to tackle natural disasters.

Following a two-year negotiation process between 2004 and 2006 steered by the four Visegrad countries (Hungary, Czech Republic, Poland and Slovakia), housing expenditure related to deteriorating public buildings infrastructure was also made eligible for funding under the ERDF for new Member States (EU12)[92]. This was considered an important amendment to the original Commission proposals at the time as funding was made available for the renovation of public buildings, including insulation improvements to boost energy efficiency. It is interesting to note that the importance of the provision of funding for energy efficiency in housing was stepped up within

[91] This is obviously broader than climate change impacts, however, flood, fire and desertification prevention measures are eligible under this category.

[92] Tosics, I. 2008. Negotiating with the Commission: the debates on the 'housing element' of the Structural Funds. Urban Research and Practice. 1 (1) 93-100

the European Economic Recovery Plan adopted in 2008, where these measures were considered ‘smart’ investments on the road to a ‘low carbon’ economy.

Subsequently, the ERDF Regulation was amended in 2009 as far as housing eligibility was concerned by permitting all Member States to invest up to 4 per cent of their total ERDF allocations for energy efficiency and renewable energy in social housing[93]. The fact that the amendment was undertaken mid-term in the programming period may imply that if the prevailing political agenda is changing, legislative changes are possible during the implementation phase of the ongoing budgetary period. It also comes to show that certain flexibility in the funding allocations is plausible in the presence of high-level political commitment to such.

Regulation 1084/2006/EC establishes the **Cohesion Fund**, which operates only in regions under the Convergence objective and presents further opportunities for climate proofing Cohesion Policy interventions. Besides financing transport projects within the framework of the Trans-European Transport Network (Article 2(a)), particularly the EU’s priority projects of common interest, the Cohesion Fund provides funding for environmental projects in support of the Sixth Environmental Action Programme, in particular energy efficiency, renewable energy, and sustainable transport initiatives outside the Trans-European Network (Article 2(b)). Commission Decision 2006/596/EC establishes the eligibility of Member States for the Cohesion Fund. The beneficiaries are restricted to those Member States with a GNP per capita of less than 90 per cent of the EU average. These states are: Bulgaria; the Czech Republic; Greece; Cyprus; Latvia; Lithuania; Hungary; Malta; Poland; Portugal; Romania; Slovenia; and Slovakia. Spain is eligible on a transitional basis.

In the current programming period, for the first time the operation of the Cohesion Fund is aligned with that of the Structural Funds and financial assistance is made available through programmes, rather than on a project-by-project basis, as was the case formerly. A positive result of this move was that the CF could be better aligned to the structural funds framework, which encompasses considerably stronger provisions for environmental integration.[94] Also a new outcome is that resources from the ERDF and the Cohesion Fund now can be deployed jointly in programmes supporting transport and the environment respectively.

4.3 Policy cycle

The General EU Funds Regulation lays down provisions concerning the different policy stages of establishing the general policy framework, programming, implementation, monitoring and evaluation of Cohesion Policy. Understanding the ‘policy cycle’ as established earlier can be adapted to explore the possibilities of deploying climate proofing instruments at each stage. It also aids the identification of relevant policy actors who could assume responsibility for deploying these instruments throughout the different levels of governance.

4.3.1 Strategic policy framework

A reflection process of Cohesion Policy in view of the future reform post-2013 has been launched already in May 2007 with the publication of the Fourth Cohesion Report by the European Commission. This was followed by a public consultation on the future challenges of Cohesion Policy in September 2007 and a number of high-level conferences under the Slovenian, Czech, French and

[93] Regulation (EC) No 397/2009 of the European Parliament and of the Council of 6 May 2009 amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing, OJ L129, 21/05/2009

[94] Lenshcow, A. 1997. Variations in EC environmental policy integration: agency push within complex institutional structures. Journal of European Public Policy 4:1, March 1997: 109-27

Spanish Presidencies. In 2008, the 'Regions 2020' report was published by DG Regional Policy that explores the regional effects of four key challenges - adapting to globalisation, demographic change, climate change and the energy challenge - in the medium-term perspective to 2020. This is the first Commission document which frames the issues of climate change and energy as 'key challenges' and could be considered, to a degree, as providing a rationale for enhanced Cohesion Policy intervention as far as climate change is concerned.

A year later, a high-level report outlining an 'agenda for a reformed Cohesion Policy' is presented by Fabrizio Barca, Director General in Italy's Ministry of Finance and Economy. The report argues that there is no doubt that EU cohesion policy should be coherent with the EU's objectives on climate change, whatever the direct spending objectives are. However, it also makes the case for a place-based approach to tackling climate change, making this one of the top 3 to 4 priorities. This is because the overall capacity to innovate and adapt to climate change will be reliant on local capacity and the ability to agree on preferences etc. In addition, some places could be affected more than others due to differences in income levels and so forth, therefore existing social traps could worsen and new ones emerge.[95]

Some of the recommendations of the 'Barca report' were echoed in the Orientation paper on the future Cohesion Policy published by the out-going Commissioner Pawel Samecki as a guiding document to the incoming Commissioner Johannes Hahn (e.g. concentration on a limited number of priorities, a stronger link between performance/results and incentives/conditionalities). One of the most interesting aspects of the paper in terms of mainstreaming the environment into EU cohesion policy is its suggestion that there should be more direct control over the funds. On page nine it states that 'although the Strategic Guidelines and the Regulations aim at concentration on strategic priorities, they identify a broad range of areas for intervention without providing sufficient policy content and focus'.

Against this background, it could be said that the last three years have presented a number of entry points under the initiatives of both the Commission and respective Presidencies by which some thinking has been developing giving a higher regard to climate change considerations and its potential implications as far as the key modalities of the future Cohesion Policy are concerned. The debate on the future Cohesion Policy has been unfolding also with regard to the debate on the EU budget review (see previous chapter) but also the debate on territorial cohesion, where the question of climate change has been addressed to a varying degree. However, perhaps the most important opportunity may be rather the upcoming Communication on the future Cohesion Policy accompanied by the so called 'Cohesion Forum' at the end of 2010. Following this, there will be approximately two years of formal negotiations and informal interactions involving the European Parliament, Member States, ESC, CoR, socio-economic partners and civil society where more concrete aspects of the future Regulations will be discussed and agreed upon.

Understanding the architecture of the formal decision-making process over the future Cohesion Policy could also cast some light in view of potential climate-proofing strategies. According to the Treaty Articles 176, 177 and 178 of the TFEU (formerly 160, 161 and 162 TEC), the European Parliament and the Council after consulting with the advisory bodies – Economic and Social Committee and Committee of the Regions – shall adopt Regulations defining the 'tasks, priority objectives and the organisation of the Structural Funds'. The Regulations are to be adopted in accordance with an ordinary legislative procedure, which is based on the previous 'co-decision'

[95] Barca, F. 2009. An Agenda for a Reformed Cohesion Policy – A place-based approach to meeting European Union challenges and expectations'

procedure where the Parliament is a co-legislator on a par with the Council. Matters concerning Cohesion Policy fall under the competences of the Regional Development Committee in the European Parliament. In this sense, during 2011 and 2012, the discussions regarding potential strategies and instruments to climate proof the ERDF and CF are likely to mature. It would be the most appropriate time to seek to distil a 'climate proofing' agenda for Cohesion Policy.

At a national level, strategic planning is carried out within the process of developing **National Strategic Reference Frameworks** (NSFRs). Pursuant to Article 27 of the Structural Funds Regulation 1083/2006/EC, Member States have to 'present a national strategic reference framework which ensures that assistance from the funds is consistent with the Community Strategic Guidelines'. The purpose of the NSRF is to specify the strategic orientations and priority interventions for the EU Structural and Cohesion Funds in the respective Member States/regions. The NSRFs should include, amongst other things, the following elements: an analysis of development disparities; the strategy chosen on the basis of this analysis; a list of operational programmes; a description of how spending will contribute to the EU's priorities of promoting competitiveness and creating jobs; and an indicative annual allocation from each Fund by Programme. These NSRFs are prepared by the Member States as set out in Article 11 after consultation with relevant partners (including regional, local, and urban authorities, socio-economic and environmental partners) and in 'dialogue' with the Commission with a view to ensuring a common approach. These NSRFs are to be submitted within five months following the adoption of the Community Strategic Guidelines on cohesion. The Commission then has three months after receipt of the NSRFs to make any comments and to request any additional information from the Member State.

4.3.2 Programming

Based on these NSRFs, Member States should develop **Operational Programmes** which are to be used as a more operational instrument for the funds' allocation. The OPs present the priorities, priority axes with targets, indicative breakdown by the category of programme use of the contribution from the Funds, as well as its management structure and delivery mechanisms. The Commission validates certain parts of the NSRFs first and, after a consultation with Member States, makes a decision about the OPs and the indicative annual allocations from the Funds. This 'negotiation' process could often be quite intense and in many cases the Commission has had a fairly considerable influence on the content of a given OP and the respective funding allocations.

In the current 2007-2013 budgetary period, according to Commission figures approximately €9 billion EU funds have been allocated to energy efficiency and renewable energy, which is approximately 3 per cent of the total EU funding. Indirect climate related funding was also allocated for clean public transport, intelligent transport systems and cycling tracks (€7.8 billion) as well as rail infrastructure (€24 billion).[96] Overall, the available funding for climate mitigation-related measures targets efficient energy and transport interventions, and could be deemed as relatively low given the considerable investments necessary to achieve the CARE package objectives and facilitate a transition to a low carbon economy.

At the same time, reference to climate change adaptation is not made in the 2007-2013 Cohesion Policy framework since the Green Paper on climate change adaptation was published in 2007, one year after the Cohesion Policy legislative package was adopted. Therefore, there is no corresponding funding for such interventions. The scope of ERDF funding, however, includes a category of expenditure for 'risk prevention'. Arguably, climate adaptation measures (e.g. floods, fires and desertification) can be financed therein; however, the concept of risk prevention is broader as it also

[96] DG Regio, Statistics. http://ec.europa.eu/regional_policy/themes/statistics/2007_environment_climate.pdf

includes 'technological risks' alongside natural ones. A total of €6 billion is allocated to 'risk prevention' measures in the 2007-2013 EU funding, but it is rather difficult to assess how much of this targets natural risks.[97]

It should also be noted that at the same time, Cohesion Policy provides extensive support for road building, which in the current programming period amounts to 11 per cent of the total available Cohesion funding. Much of this is inline with the EU plans for the development of large-scale transport infrastructure as part of the Trans-European Transport Network. Also, improving the accessibility of regions through road building is largely seen as a major driver for economic development, a paradigm deeply embedded in the Cohesion Policy framework. There is already some thinking developing in certain Commission services which has also been part of the review process of the future TEN-T, where some propositions are made with regard to targeting Community funding towards railways and waterways in the TEN-T priority projects and enhancing the resilience of transport infrastructure to climate change. Nonetheless, the case of Community support for TEN-T roads might potentially be one of the most contentious issues as far as trade-offs between transport and climate change are concerned.

4.3.3 Implementation

After the Commission approves the OPs, the Member States and its regions then have the task of managing and controlling the implementation of programmes. That entails organising calls for proposals, the selection of projects, monitoring and evaluation. The management of the OPs is carried out by management authorities in each country and/or each region. A study by REC-ENEA argues that there are two main approaches to 'climate proofing' the implementation stage of the Cohesion programme cycle: 1) **through project application documents** (including questions in application forms about emissions reduction and energy consumption) and 2) **assistance and guidance to project applicants** (through environmental networks or sustainability managers).[98] Regarding project appraisal, they suggest that establishing innovative institutional mechanisms (e.g. environmental panels) could aid the selection process by way of environment/climate expertise.[99] Essentially, the project selection criteria could *a priori* be designed so that the scoring system favours climate-saving and resilient projects compared to business-as-usual ones.

Importantly, the European Commission has a co-decision power over appraisal and approval of 'major projects': for the 2007–2013 period, ('major projects' refer to environmental projects over €25 million and other projects over €50 million). In July 2009, the Commission proposed a modification of the General Regulation 1083/2006/EC in order to introduce a uniform threshold of €50 million for all major projects as part of the anti-crisis measures package that DG Regional Policy has been putting forward since the end of 2008.[100] For each major project, Member States must submit a series of documents to the Commission, including a cost-benefit analysis, a financing plan and an analysis of the environmental impact. The latter should be in line with the EIA Directive 1985/337/EEC (as amended). The co-decision power of the Commission, although often considered as unnecessarily prolonging and sometimes delaying the implementation of major projects could at the same time be seen as a the 'necessary evil' to ensure a stringent check of the environmental sustainability of a project. The role of the technical assistance through JASPERS could also be

[97] DG Regio. Statistics, http://ec.europa.eu/regional_policy/themes/statistics/2007_environment_climate.pdf
[98] ENEA-REC (2009) Improving the Climate Resilience of Cohesion Policy Funding Programmes. REC: Szentendre.
[99] Ibid.
[100] CEC. 2009. Proposal for a Council regulation amending Council regulation 1083/2006, (COM (2009) 384), Brussels, 22/07/2010.

strengthened in order to provide expertise on CO_2 emission reductions and climate adaptation measures at a design stage of the different major projects.

With regard to the spending patterns of EU funds in the current programming period, the 2010 Commission strategic report[101] shows some worrisome trends. For the 18-month implementation period, €93 billion, which is 27.1 per cent of the available 2007-2013 Cohesion Policy funding, has been contracted to concrete projects in the 27 Member States. Highest-performing Member States include Belgium and the Netherlands, which have selected projects absorbing 61.1 per cent and 55.8 per cent, respectively, of their EU funding allocations. Greece and Romania are at the bottom, managing to invest 11.9 per cent and 14.1 per cent, respectively. So called 'Lisbon earmarking' investments allocated to strategic EU objectives stemming from the Lisbon Strategy for growth and jobs, are advancing well, particularly for projects such as research and innovation in SMEs, implementing active labour market and lifelong learning activities.

The report underlines that environmental investments are 'underperforming at this stage' utilising 21 per cent of the total amount available for such measures, with Greece and the Czech Republic facing major delays while Estonia, Spain and Hungary are making some progress. Traditional investments in environmental infrastructure (e.g. waste water treatment) are taking place faster compared to investments in climate adaptation and risk prevention, in which the uptake of funds is 'especially weak' in countries like Spain, Greece, Poland and Romania. Spending on energy efficiency has been successful in the Czech Republic, Italy and Lithuania but close to non-existent in several other countries including the UK. Spending in wind energy is also slow, utilising only 2.9 per cent of the available EU funds. Therefore, the Commission has identified 'priority areas' *inter alia* rail, energy, environment and capacity building, where Member States are urged to undertake special efforts in order to speed up the implementation of EU funding.[102]

What can be inferred from the findings of the Strategic report is that the so called 'cohesion' countries and new Member States, who constitute the biggest recipients of Cohesion funding, face significant impediments for implementing EU funded programmes and projects. The observed 'implementation deficit' often regards not only environmental/climate measures but generally all cohesion measures and puts in question the ability of beneficiary countries to absorb Community funding. This emphasizes the importance of developing the necessary institutional set-up in different governance levels through investing in 'soft measures', e.g. administrative capacity, help desk services, new skills and training, etc. Designing the institutional structure and investing in developing their capacity to enhance the promotion and absorption of climate change projects will be crucial to overcome the existing implementation barriers and in a way could be considered part of an institutional approach to climate proofing Cohesion funding.

Against the background of the current economic crisis, another drawback in the implementation process appears to be the declining availability of national co-financing for EU funded projects. This could have an impact on the implementation of the CARE package in a number of Member States which seek to cut down their national budgets for an array of measures, including climate change related ones. The 'smart' use and enhanced absorption of EU funding in this case becomes even more important especially for less developed regions. The development of innovative financial engineering schemes e.g. revolving funds, guarantees, etc. and in some ways could aid the system of EU funding by improving implementation and absorption rates.

[101] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013, COM(2010)110, 31/03/2010

[102] Commission Staff Working Document. (SEC(2010)360). 31/03/2010

4.3.4 Monitoring, reporting and evaluation

Overall, climate change trends and impacts are not explicitly embedded with regards to monitoring, reporting and evaluation. This is the stage of the policy cycle which offers significant potential for developing climate-proofing instruments concerning accounting systems, reporting mechanisms and feedback loops for policy learning. These, however, should be considered from the perspective of the 'simplification' agenda where some sort of a trade off should be made between the goals of cutting administrative burden and establishing effective monitoring and reporting tools for climate change.

According to Article 63 of the General Regulation 1083/2006/EC Member States establish **monitoring committees (MC)** for the OPs, which are chaired by the managing authorities and include representatives of other relevant authorities, socio-economic and environmental partners. Members of the Commission are also members of these committees, allowing it to monitor each operational programme alongside the Member States. The monitoring committees are tasked with deciding upon the project selection criteria, reviewing periodically progress made towards achieving the targets of the OPs, examining the results of the OPs interventions, approving the annual and final reports on implementation. Interestingly, the monitoring committees might propose to the managing authorities amendments or examinations of the OPs in view of attaining the Funds' objectives. Theoretically, the MC appear to have some important leverage in decision-making, but some of the early experience in new Member States, for example, shows that they are a pro forma mechanism to legitimise decisions already made at a central level.

There are four layers of reporting requirements in the current Cohesion Policy: 1) annual implementation reports, 2) annual progress reports, 3) strategic reports and 4) Cohesion reports. Managing authorities are required to submit **annual implementation reports** for the first time in 2008 and then by 30 June each year; a final implementation report is due by 31 March 2017. The Commission has two months to express an opinion on the content of the report from the date of its receipt. Based on the annual implementation reports, the Commission should prepare overall **Annual Progress Reports** to the Spring European Council.

Member States should submit to the Commission also two **strategic reports**. The first one is due by the end of 2009 and the second by the end of 2012. These reports should demonstrate how the implementation of the OPs contributes to attaining the objectives of cohesion policy and to the priorities set out in the Community Strategic Guidelines in line with the Integrated Guidelines for growth and jobs. Furthermore, these reports should also elaborate on the socio-economic situation and trends, achievements, challenges and future prospects, and provide good practice examples. Based on the national strategic reports, the Commission should prepare first in 2010 and then in 2013 a **strategic report**, which will be transmitted to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions.

Article 175 of the TFEU stipulates that the Commission shall submit every three years a **report on the progress made towards economic, social and territorial cohesion** to the Parliament, Council and Economic and Social Committee and the Committee of the Regions. The first report was prepared in 1996 with further regular reports published in 2001, 2004 and 2007. The next Fifth Cohesion Report is due to be published in 2010.

The majority of reporting in essence concerns the rate of spending according to different categories of expenditure, or developments based on strictly social and economic indicators. This is mirrored in general criticism of the evaluation system of Cohesion Policy, which suggests that little regard is given to actual outcomes and impacts. In the current Cohesion Policy framework, many countries included indicators regarding GHG emissions, but it is too early to assess their adequacy and effectiveness in terms of providing a proper assessment of the climate change impacts of Cohesion interventions. Of course, the issue is also methodological in terms of linking financial flows to induced greenhouse gas emissions, as well as relating to the availability and quality of regional/national data to this end. Therefore, the discussion about devising appropriate **indicators** resurfaces and is likely to feature prominently in the negotiations of the future policy.

The General EU funds Regulation sets out the requirement for Member States to conduct **ex-ante, on going and ex-post evaluations** of the OPs which should take into account 'the objective of sustainable development and of the relevant Community legislation concerning environmental impact and strategic environmental assessment' (Article 47). Research has shown that the ex-ante evaluations of the 2007-2013 OPs have been an important tool to ensure that OPs are aligned with the Lisbon and the EU SDS Strategies[103]. In 2007, the Commission requested that Member States conduct an SEA as a parallel process to the ex-ante evaluations in line with the SEA Directive 2001/42/EC for the NSRF and OP. SEAs were found to generally focus on potential synergies (win-wins) between economic development and environmental protection, and less on trade-offs. However, according to Nordregio, there were few Member States for whom the choice of strategic decisions on the allocation of funding was influenced by considerations of the associated environmental costs.[104] Clearly, however, the SEA Directive itself needs to be adapted to the new challenges of assessing climate change impacts which can offer further opportunities for climate proofing, but is likely to constitute a challenge itself.

[103] Nordregio, European Policies Research Centre, Austrian Institute for Spatial Planning (ÖIR) and SWECO (2009) The potential of regional development instruments 2007-2013 to contribute to the Lisbon and Goteborg objectives for growth, jobs and sustainable development. Final report for the European Commission, DG Regional Policy, Evaluation Unit, July 2009.
[104] Ibid.

5 Towards a cookbook for climate proofing – first menu of ideas

The previous two chapters presented the landscape of opportunities and possible entry points for deploying instruments for climate proofing the EU budget in general and the ERDF/CF in particular.

Against this background, we put forward our first attempt to develop a 'cookbook' for climate proofing the EU budget, again taking the Structural and Cohesion funds as a worked example. The menu of ideas presents a set of options and issues with a short discussion on each. Since this is an interim report, the proposed options are far from conclusive and are subject to further reflection and discussion with relevant stakeholders. Therefore, the aim of this chapter is to expose a number of opportunities which we hope will provoke interest and allow us to collect feedback and new ideas, leading to a further development of the cookbook and more robust proposals in terms of feasibility, effectiveness and potential impact, for example.

Essentially, a combination of three parallel options is proposed:

1. To increase the level of dedicated funding for climate change mitigation and adaptation options in a strategic way by creating **a new freestanding climate change funding instrument;**
2. To **increase the level of dedicated climate change funding in existing EU funding instruments** to climate change objectives by a process of integration; and
3. To increase the sensitivity of EU funding instruments to climate objectives and to minimize the level of activities potentially damaging to climate by **mainstreaming climate objectives horizontally into all funds.**

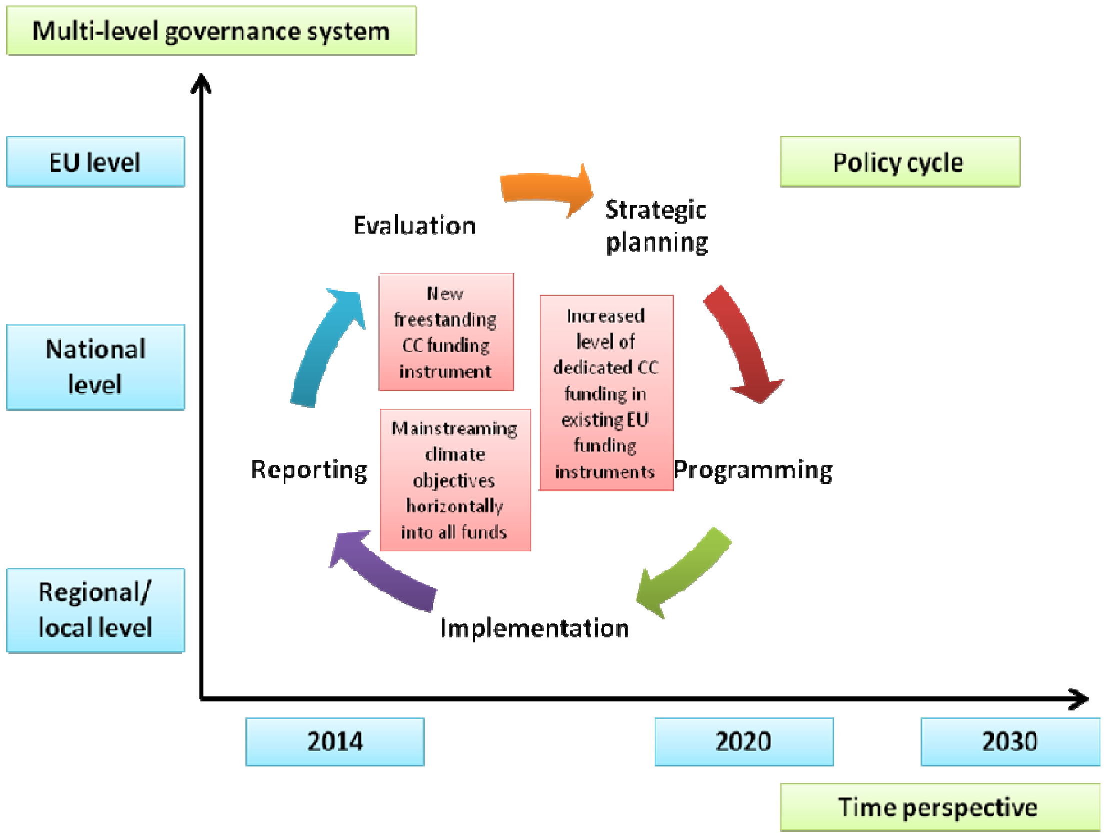
These options are not mutually exclusive. Indeed, they are complementary and should be implemented in parallel to each other. In developing all of these options, account needs to be taken of:

- Different **stages of the EU budget/Cohesion Policy cycle**;
- Different **levels of the multi-level governance system that are involved**; and
- The point in **time**.

Such considerations may lead to a different choice of instruments.

The figure below aims to visualize the different elements of potential climate proofing strategies for the EU budget and Cohesion Policy.

Figure 1: Elements of climate proofing options for the EU budget/Cohesion Policy



This chapter presents options for climate proofing strategies and instruments which are for now considered at two levels : 1) options for the EU budget as a whole and 2) options for Cohesion Policy (ERDF and CF more specifically). The former explores questions concerning the provision of dedicated funding for climate change from the EU budget by elaborating two possible options – creating a new climate change funding instrument or strengthening the funding opportunities for climate change measures under the existing funding instruments. The case of the ERDF and the CF is explored more in depth as an example of existing funding instruments which need to integrate climate change objectives both in terms of direct support for climate change measures and also by adaptations designed to minimise negative climate change impacts and improve the climate resilience of traditional cohesion expenditure.

5.1 Options for the EU budget

5.1.1 Setting climate priorities and objectives

The increased centrality of climate change concerns in the strategic EU agenda would require these to be reflected in its overall budgetary decision-making in terms of setting out specific climate priorities and objectives. The current 2007-2013 EU financial perspectives have three strategic priorities – pursuing sustainable growth, developing EU citizenship and establishing the EU as a global player. Explicit reference to the environment (not climate change as such) is made under the first priority, noting that environmental objectives 'complement and reinforce the growth agenda'. It is also suggested that the level of funding for environmental activities should be 'where necessary increased in the next financing period, reflecting the importance of the environment as a pillar of sustainable development'. The latter recommendation refers to strengthening the financial support for broader environmental objectives in the post-2013 period.

Given the subsequent developments in EU climate and energy policy, it should be expected that **climate change objectives are included and made more explicit** within the future EU budget priorities. This, in fact, could be regarded as a starting point for climate proofing the EU budget at a strategic level. For instance, the draft Communication on the EU budget review leaked in October 2009 outlined three major spending priorities: growth and jobs, climate and energy security and a global Europe, thus bringing climate change objectives from the periphery more to the core of the EU budget.

Setting out concrete climate change priorities and objectives could be translated into **the creation of a budget line or specific sub-heading** for investments in mitigation and adaptation in the next financial perspectives.[105] This would provide a basis for identifying concrete measures in support of this objective and will require the development of concrete implementation plans, indicators and supporting organisational structure. Those in turn would guarantee that the political commitment for such objectives would not remain confined to the level of rhetoric.

Next step would require ensuring **consistency between climate change objectives and *other* objectives of the EU budget**. Examples of inconsistencies could include having policy objectives for developing major road connections in Europe with the objectives of reducing GHG from transport; with regard to land use, conflicts could arise between objectives for urban or industrial development and objectives for water retention; an even more sensitive example would be the development of biofuels for the purposes of climate mitigation articulated against objectives for biodiversity protection and food production[106]. Therefore, an assessment and understanding of the different trade-offs between the various budgetary objectives becomes crucial. Pinpointing potential synergies is also helpful, for instance underlining the role of climate change investments in the promotion of new sources of growth and green jobs.

Here, the discussion about 'carbon neutrality' and an 'adaptation-positive' EU budget recurs. Essentially, in the case of mitigation, a number of options are possible where a strategic decision is needed concerning, for instance, whether **overall the EU budget should be 'carbon neutral'** (under

[105] Egenhofer, C., Behrens, A. and Ferrer, J.N.(2008) Does the EU have Sufficient Resources to Meet its Objectives on Energy Policy and Climate Change? Report for the Budgetary Affairs. European Parliament, Brussels.

[106] See Mickwitz et al. 2009. Climate policy integration, coherence and governance. PEER report 2. Helsinki: Partnership for European environmental research.

which measures that are likely to induce carbon emissions but which contribute to other political priorities of the EU would still be financed, as long as they are compensated with parallel emission reduction measures so that the total 'carbon balance' is maintained), **each funded measure should be 'carbon neutral'** , or **all funded measures should be 'carbon positive'** (i.e. should result in actual emission reductions).

5.1.2 Improving strategic planning

One way to align the utilisation of different EU funding instruments towards new climate change priorities and objectives could be to establish some sort of overall strategic framework. It may also be helpful to streamline and coordinate the various funding instruments with a view to avoid overlaps, ensure synergies and ultimately improve policy outcomes. In fact, the orientation paper on the future Cohesion Policy presented in December 2009 by Pawel Samecki, European Commissioner for Regional Policy at the time, suggests a novel idea for the establishment of a '**Single Strategic Framework',** providing strategic orientations for all Community funds under the shared management 'and possibly partly under direct management'.[107] This would entail the establishment of a common strategic framework which should gear the different funding instruments to key strategic priorities. The idea has been recently backed up in a joint letter singed by the Commissioners on Regional Policy, Agriculture and Rural Development, Maritime affairs and Fisheries and Employment, Social Affairs and Inclusion, to the Commission President Barroso proposing the drawing up of such a 'common EU-level strategic framework' for the ERDF, ESF, Cohesion Fund, the EAFRD and the EFF in the post-2013 financial period. They envision the framework to substitute the current separate set of strategic guidelines for each policy and align the implementation of the different funding instruments with the overarching objectives of the Europe 2020 Strategy.[108]

Another proposal linked to improving the strategic planning of the future EU budget but explicitly linked to climate change is the establishment of a **'European Framework Programme for Climate Change and Energy**'. It is supposed to provide a framework for the concentration of EU funding for the achievement of Europe's climate and energy objectives. Additionally, such a framework would permit the blending of financing solutions (including private and national funding) by pooling them to target specific areas for funding, such as wind and solar energy, electricity grids, bio-energy, etc.[109] While such an instrument could potentially aid the strategic planning and the coordination of funding, it refers predominantly to climate mitigation actions and regards energy in particular. From the point of view of proofing, climate change should be interpreted more broadly to include both mitigation and adaptation, as well as other sectors such as transport, housing, etc.

'Earmarking' could potentially constitute another instrument to aid the strategic planning process of the future EU budget. Earmarking is an instrument used to deploy public finance to specific objectives, expenditure or projects. In other words, it is a way to harness public expenditure for specific political priorities. As mentioned earlier, there are diverging views on whether the alignment of 2007-2013 Cohesion Policy to the Lisbon agenda through 'earmarking' was successful, therefore a discussion concerning the application of a similar approach in the post-2013 perspective is necessary.

[107] European Commission. 2009. Orientation Paper on the Future Cohesion Policy.
[108] Joint letter to Commission President Barroso, 30/08/10, http://www.euractiv.fr/sites/default/files/jhmdladc_-_barroso_30082010-sign.pdf
[109] CEC. 2009. A reform agenda for a global Europe- reforming the budget, changing Europe. Brussels, unpublished.

5.1.3 Scaling up budget support for climate change

Several studies have recently highlighted the important role that EU funding instruments can play in the EU's approach to achieving its climate change objectives.[110] To do this, a certain scaling up of dedicated funding for climate change measures would be necessary. This could be done in two ways: through significantly strengthening the '**integration' of climate change activities under the existing EU funding instruments** (which is the current approach) or **creating a new funding instrument dedicated exclusively to climate change**.

For either pathway, it must be emphasised that the EU budget is limited in size and is unlikely to grow so as to accommodate newly emerging climate-related priorities. Indeed, the budget is more likely to shrink. This means that the commitment appropriations for some of the current budgetary headings will need to be reduced, to 'make room' for climate change expenditure. As much as this could appeal to some, it is likely to face strong opposition by a number of Member States and interest groups who prefer to conserve the *status quo* with regard to levels of CAP spending, for instance, a leading candidate for potential cuts.

Climate change policies come at a cost and the EU budget has been making a disproportionately small contribution to meeting this. Cohesion funding and LIFE+ have traditionally provided dedicated financial support to Member States to comply with aspects of the EU *acquis* in the field of water supply, waste water treatment, waste management and nature conservation, where the investment needs are relatively high. Similar arguments can be made with regard to climate change policy. The question therefore is, what is the fair scale of contribution from the EU budget and what would be the most cost-effective funding mechanism?

In early 2008, the cost of achieving objectives to which Member States committed themselves in the CARE Package, including the modest 20 per cent reduction in GHG emissions, was assessed at around €70 billion per annum by 2020. This has now dropped to about €48 billion due to a combination of factors, representing a drop in costs of about 30 per cent. If the EU opts for moving up to a 30 per cent emission reduction target, the total cost of the CARE package is estimated at €81 billion per annum by 2020, or 0.54 per cent of the EU's GDP.[111] Furthermore, in the run up to 2020, new funding needs arise also from the EU's contribution to international climate finance, for which several options were elaborated in the Commission Communication published in September 2009[112]. It is estimated that 'finance requirements for adaptation and mitigation actions in developing countries could reach roughly €100 billion per year by 2020'. The EU's share of public funding, depending on criteria used to determine the burden-sharing system that is to be applied between donors, would be between €2 and €15 billion per year by 2020. One of the options for channelling the funds is proposed to be through direct financing from the EU budget.

The discussion about integrating climate change expenditure into other funding instruments vs. creating a separate climate change fund is central to the whole debate about climate proofing the EU budget and Cohesion Policy. There are advantages and disadvantages of each of these two options. The key arguments could be summarised as follows:

[110] Green Alliance 2007; Adelle et al 2008; ECORYS et al 2008; Egenhofer et al 2008.
[111] Commission of the European Communities, Commission staff working document accompanying the Analysis of options to move beyond 20% greenhouse gas emission reductions and assessing the risk of carbon leakage. Background Information and Analysis. Part II. (SEC(2010)650), Brussels, 26/05/2010
[112] Commission Communication on a European blueprint for international climate finance (COM(2009)475)

Option 1: Creating a separate climate fund
Pros

- Greater likelihood of a guaranteed level of spending on genuinely climate-related issues;
- Dedicated institutional structure, growing capacity and expenditure;
- Potentially improved effectiveness of reporting and verification of results; and
- Possibly improved efficiency of administration.

Cons

- Climate change is a cross-cutting issue and needs to be integrated into other Community policies and their respective funding instruments;
- Uncertainty over the effectiveness of existing institutions to deliver the funding alongside time constraints on creating a new institutional set up;
- Danger of institutional compartmentalisation in terms of concentrating knowledge without spilling over institutional borders; and
- Potential resistance of Member States to having to engage with a new EU fund, with the additional procedures involved.

One additional argument in favour of setting up a separate climate fund is that it could then establish DG Climate Action as a significant spending department which thus will have a right, alongside DG Agriculture and DG Regional Policy, to participate fully in the internal Commission discussions on the draft multi-annual financial perspectives. In the past, on some occasions, DG Environment has been effectively excluded in this process on the grounds of not being a major spending department.

Option 2: Integrating climate in other funding instruments
Pros

- Mainstreaming climate change in all EU spending can facilitate the necessary transformation for decarbonising and building resilience of entire sectors and policy domains; and
- Less institutional disruption and uncertainty, and therefore smaller chance of delays.

Cons

- Difficult to classify expenditure and therefore to report and verify results. A rigorous and procedurally operational system needs to be in place;
- Danger of overlapping activities and the challenge of ensuring complementarity of actions; and
- Difficult to ensure that climate is a priority in all relevant spending programmes and that Member States respond to the opportunities available.

Ultimately, a **combination of both options might be most effective**. Ensuring that there is separate, dedicated funding for climate change would appear most appropriate and perhaps effective particularly in relation to adaptation activities both inside and outside the EU. At the same time, climate change allocations and considerations can still be strengthened within existing EU funds (Structural and Cohesion Funds, TEN-T and TEN-E, CAP, fisheries, etc.). The latter should target the ‘transition costs’ of key economic sectors towards decarbonisation and improved resilience. Possible overlaps of actions need to be avoided and reporting/verification mechanisms should be put in place. Progress in this direction could be improved if DG Climate Action develops its own capacity and is recognised as a stakeholder on a par with other spending departments in the Commission.

5.1.4 Specific climate change measures

The debate on the provision of dedicated funding for climate change would require also further discussion on what **concrete measures** should be financed. At programme level, these will need to be balanced with local objectives, priorities and circumstances. Effective guidelines will also be required. For instance, there are some proposals already made for the future EU budget to target the completion of energy interconnections, and smart energy grids are also often mentioned as a key investment priority.[113] In relation to R&D, financing the implementation of the SET-Plan[114] is also being put forward with an emphasis on new experimental technologies and projects associated with high-risk and upfront capital cost.[115] In the transport sector, measures stimulating modal shift and low carbon infrastructure could be favoured under Cohesion Policy as greener ways to improve connectivity of regions, whereas the TEN-T network could exclusively target investments in high-speed rail and intelligent systems. There will be a diverse range of measures which would be advocated by different interest groups and business associations and, therefore, further discussion would be needed on the type of priority measures that the future EU budget should favour in terms of the value added and sustainability of actual outcomes.

Essentially, **some prioritisation and balance of eligible measures** is also required in order to ensure that smaller but cost effective measures are promoted sufficiently in EU funding. It needs to be ensured that not all funding for low carbon energy would be swallowed by large scale projects such as carbon capture and storage (CCS), given that concerted investment in improving energy efficiency is proven to be the most cost effective way to reduce emissions, counter fuel poverty, increase security of supply, etc. For example, the building sector in the EU, which accounts for 40 per cent of the EU's energy requirements, offers the largest single potential for improved energy efficiency.[116] Similar arguments can be put forward for climate adaptation funding – criteria are needed to help secure a balance between funding for different types of adaptation measures so as to ensure that not only bulky infrastructure measures (e.g. sea walls, etc.) receive most of the funding but also ecosystem-based approaches and prevention measures are supported.

Whereas many climate change mitigation actions may attract private entrepreneurial sources of investment because they constitute a business opportunity, this is less likely to be the case for **adaptation** measures. Of course, it should be acknowledged that ideally a combination of public-private solutions to risk management and responsibility sharing should be sought through insurance schemes and market-based instruments. Still, adaptation efforts are likely to rely to a greater extent on the provision of public funding. Also, as argued earlier there is a strong case for Community action in this area particularly with regard to Cohesion Policy. Currently, the funding provided for 'risk prevention' under the Cohesion Policy is arguably not sufficient to accommodate investment needs with regard to climate adaptation and certainly not reflective of the adaptation needs as articulated in the White Paper on climate change adaptation.

The EU Solidarity Fund was created in 2000 as a funding instrument to provide ex-post compensatory funding to countries hit by natural disasters (again 'natural disasters' is broader and not limited only to climate change). One option to be further explored would be to **reform the EU Solidarity Fund**, so that the definition of 'natural disasters' is expanded to include the long-term

[113] CEPS. CEPS Task Force. 2009. For future sustainable, competitive and greener EU budget: integrating the climate change objectives, CEPS: Brussels.

[114] E3G. 2010. A European budget for the future. In: 'Unlocking a low carbon Europe – perspectives on the EU budget reform' by Green Alliance, London.

[115] Ibid.

[116] Adelle et al. 2009. Understanding and influencing the EU budget. Final Report for the Environment Agency. IEEP: London.

effects of climate change (e.g. desertification, etc.). Yet, this instrument would be available to Member States as a compensatory response only after the event of a natural disaster. The issue of developing risk management and adaptive capacities remains to be addressed.

Most studies recommend that climate adaptation not be dealt with as a standalone issue but be integrated within wider economic development strategies[117]. Therefore, an option to be considered is integrating **climate adaptation funding under sectoral funding instruments** such as the European Fund for Agriculture and Rural Development and the European Fisheries Fund or **into broader development policie**s, such as Cohesion Policy. This would mean that climate change adaptation objectives need to be clearly articulated into sectoral /development funding instruments, respective categories of expenditure need to be established and reinforced through guidance and conditionality.

The issue of **costing** the necessary measures emerges as fundamental, as it is difficult to envisage at this point the potential cost curves for different types of adaptation measures under the different climate change scenarios. There is a growing body of relevant literature on the economics of climate change adaptation which would aid the decision-making process in this regard. The FP7 project, ADAM, for instance, suggests that benefits from climate adaptation can be significant, while the costs of inaction will increase with time.[118] Overall, however, there is a lack of concrete estimates for future costs of climate adaptation measures and it is difficult to identify the most cost-effective measures. Further research is needed, particularly in relation to the role of the EU budget in bearing this cost.

The exercise of estimating costs becomes particularly difficult with regard to **extreme weather events**. McKinsey proposes preparatory activities as a part of a bottom up adaptation strategy which is to aid decision-makers in a longer term perspective. They propose that 'frequency and severity scenarios' are developed for most relevant hazards, and a map is generated of the impact of those. The risk in a region is quantified in terms of population, assets and income value. The vulnerability of population, assets and incomes to the hazard is determined through the use of 'vulnerability curves' that define, for assets such as agricultural, residential and industrial/commercial, the percentage value damaged by hazards of different severity.[119] There are obviously different methodologies that can be followed, but the point here is that some ground work and preparatory assessments are required prior to any discussion on budget allocations.

Therefore, in terms of the timeframe for climate proofing the EU budget, work on vulnerability assessments and corresponding investment should be commenced at regional/national level **during the current programming period**. The purpose of this would be to ensure that there is a satisfactory bottom-up scenario and data to inform the programming in 2013, so that funding can accommodate emerging investment needs more adequately.

5.1.5 Ensuring horizontal mainstreaming of climate change considerations

In contrast to the dedicated funding strategy, the 'horizontal mainstreaming' strategy seeks to increase the sensitivity of EU funding instruments to climate objectives and to minimize the level of activities potentially damaging to climate change. At strategic level, this might entail a change in the

[117] McKinsey. 2009. Shaping climate resilient development: a framework for decision-makers. ECA; and Stern, N. 2006. 'Stern Review on the Economics of Climate Change'. HM Treasury, London.

[118] ADAM – Mitigation and adaptation strategies: 7FP project , http://www.adamproject.eu/

[119] McKinsey. 2009. Shaping climate resilient development: a framework for decision-makers. ECA

focus and rules of the EU budget, but also in the procedures and institutional arrangements at a more operational level of decision-making.

For example, it might entail the reform of current adverse subsidies for carbon intensive activities, setting up conditionality (both in terms of penalties and incentives), creating appropriate institutional architecture to ensure the balance of powers, revising assessment and reporting procedures to take account of climate change impacts, etc. Many of these instruments are discussed more in detail later in the context of Cohesion Policy.

5.1.6 Establishing an appropriate institutional structure

The horizontal mainstreaming of climate change has important institutional and procedural dimensions, which are examined in the following two sections.

On 17 February the European Commission created a new Directorate General for Climate Action. It grouped together climate related units from several Commission departments: DG Environment, DG External Relations and DG Enterprise and Industry. It also took over competency for ozone protection and CO_2 emissions. The institutional restructuring was an important step to institutionalise the growing importance of climate change matters in EU affairs. As mentioned earlier, if given the responsibility to manage a dedicated funding instrument under the next multi-annual financial perspective, DG Climate Action would in theory receive stronger leverage from an institutional perspective in the future EU budget negotiations. Additionally, proper institutional architecture coupled with appropriate coordinating mechanisms would ensure adequate input of DG Climate Action into the discussions surrounding other spending directorates in view of horizontal mainstreaming of climate change considerations into sectoral funding instruments.

The institutional side of this discussion is not limited only to the establishment of DG Climate Action as a negotiator on a par with other spending Directorates. It essentially implies creating institutional capacity to address climate change in different fora and at different levels of decision-making. It is also linked to building and utilising knowledge on climate change mitigation and adaptation in institutions which traditionally do not have such expertise, e.g. finance ministers, DG Budget, parliamentary budgets committees, etc. For instance, the newly established SURE committee in the European Parliament on the development of the next MFF would benefit from a larger number of ENVI committee members, as currently its membership is dominated by the Budgets committee, or from external expertise on climate proofing.

Similarly, institutional capacities are needed at national and regional levels in order to enhance the participation of climate change administrations/experts in spending programming and decision-making. This may comprise the establishment of new units (e.g. change agents, sustainability managers, etc.) which could work exclusively with beneficiaries or cooperating with environmental networks which are open to civil society members as well.

The institutional aspects of climate proofing are important to its effectiveness and will be subject to further exploration in the final report.

5.1.7 Strengthen climate change considerations in SEA and EIA assessments

SEA and EIA are well established instruments for environmental integration both at the level of programmes and plans but also investment projects. So they have potential application in any climate proofing exercise. However, there is a growing recognition that the current Community legislation on SEA and EIA falls short of taking climate change considerations and impacts properly into account, and calls for further guidance on the issue have been made.[120] The Commission has recently launched a public consultation on the review of the EIA Directive, which among other things seeks stakeholder contributions to the question concerning the integration of climate change into EIA[121].

It is imperative that such a review takes place and is made operational prior to the adoption of the post-2013 multi-annual financial perspective so that funding programmes and respective projects at Member State level are able to apply the revisited procedures accordingly. The provision of operational guidelines on applying SEA and EIA with regard to the climate change impacts of Operational Programmes and investment projects funded under Cohesion Policy would be key to making the best use of these instruments.

[120] Commission of the European Communities, Communication on the application and effectiveness of the Strategic Environmental Assessment Directive, (COM(2009)469), 14/9/2009

[121] http://ec.europa.eu/environment/consultations/eia.htm

5.2 Options for Cohesion Policy

5.2.1 Changing the allocation principle: beyond GDP per capita

Currently, the allocation principle for EU cohesion funding is based on the GDP per capita of regions/countries. The appropriateness of using indicators like GDP to reflect new emerging challenges and their regional impacts, however, has increasingly been questioned. Regions 2020[122], a Commission study on the new challenges faced by European regions, argues that climate change impacts are likely to be territorially differentiated across the EU, which might exacerbate regional disparities and require differentiated structural changes in regional economies. In this sense, climate change impacts should arguably be factored into the discussion concerning the allocation principle. GDP is unlikely to be sufficient as an indicator to reflect these considerations.

It must be recognised that there is little political support for moving away from GDP per capita as an allocation indicator for EU funds. Nonetheless, exploring a wider set of indicators besides GDP, such as climate vulnerability, for instance, would be valuable, building on the existing concept of cohesion and solidarity. Regions/countries which are more vulnerable to climate change impacts would be eligible for more funding to address these long-term vulnerabilities and structural changes. This in essence would require a modification of the underlying logic of cohesion spending, although it would add to, rather than supplement some other key indicators.

To allow this to occur, some means of quantifying vulnerability would be required. The vulnerability index in the Regions 2020 report is methodologically weak, however, and therefore further work in this direction is required. The vulnerability index for instance does not take account of the existing capacities for adaptation but is based purely on potential territorial impacts of changing climate trends. The idea is eyed by some Member States, usually net payers into the EU budget, as a way of increasing their receipts from the Community funding. However, it is rather unpopular among the Commission services, which are inclined to keep the focus of Cohesion countries on 'lagging-behind' regions measured purely in terms of GDP per capita. If the adaptive capacity variable is included in the vulnerability index though, the balance will be maintained while providing an additional rationale for climate action in poorer regions.

5.2.2 Setting specific climate objectives and measures

Cohesion Policy has traditionally pursued objectives for economic development and social cohesion. Climate proofing Cohesion Policy, however, would require setting the policy objectives in a way that can accommodate the currently prevailing climate change priorities. The issue can also be considered from the point of view of the model for socio-economic development that the future Cohesion Policy wants to pursue. The underlying paradigms subsequently need to be translated into concrete goals and objectives.

At a Community level, this would entail the **articulation and adoption of concrete objectives** for climate change mitigation and adaptation in the post-2013 Cohesion Policy framework. This should be done by stipulating these in the General Regulation laying down provisions for the structural and cohesion funds and also in the specific Regulations arranging further each individual funding instrument under the Cohesion Policy. By doing so, the regulatory framework would permit the strengthening of the 'integration' of climate change measures and the allocation of sufficient ERDF

[122] European Commission (2008) Regions 2020, Climate change challenges for European regions, http://ec.europa.eu/regional_policy/sources/docoffic/working/regions2020/pdf/regions2020_climat.pdf

and CF expenditure to these. It would also signal the centrality of climate change issues within the policy framework to the respective managing authorities at national/regional levels, which would be more likely to add weight to climate change objectives in the development of their Operational Programmes.

5.2.3 Improving the strategic planning

Setting specific climate change objectives in the EU funds Regulations should be supplemented by the adoption of some sort of strategic guideline aligning the Cohesion funding with the goals and targets set out in the Europe 2020 Strategy. The 2007-2013 Community Strategic Guidelines (CSG), for instance, were devised to bring the current Cohesion Policy in line with the Lisbon Strategy for growth and jobs. They provided **concrete guidance on the type of measures** which are encouraged for support in Member States in order to contribute to strategy implementation. It was also done through the 'earmarking' of 60 per cent of the expenditure on 'Convergence' regions and 75 per cent of expenditure on 'Competitiveness' regions from the funds, so as to contribute to the objectives of the Strategy (also known as the 'Lisbonisation' of EU funds).

In our view, the CSG effectively strengthened the strategic framework of the current policy and concentrated the limited resources on a set of overarching Community priorities. Given that the political agenda has evolved, granting a higher priority to climate change objectives (as a standalone headline target in the 'Europe 2020' Strategy), there is a strong case to argue that the post-2013 EU budget / cohesion policy should earmark a percentage of the EU budget to achieving emission reductions and promote climate resilience. Whereas such a proposition may be considered by some as reducing the scope of the future Cohesion Policy and tying it too closely to the Europe 2020 Strategy, it should rather be seen as a useful instrument to focus investments on genuine Community priorities.

Similarly, at national /regional levels, where the programming process is carried out, some improvements could be brought forward. Currently, many of the Operational Programmes are sectoral and climate change issues are dealt with within broader environmental programmes/measures. One idea which should be further explored is to pursue a '**thematic' focus** on the Operational Programmes dedicated to climate change. The idea behind this would be to allow the programming of specific objectives and measures related to climate change mitigation and adaptation by pooling different funding instruments available from EU and national level. This way a more strategic orientation could be brought to the programming, while the complementarity of actions and the coordination of the different funding sources can be ensured.

5.2.4 Providing guidance to Member States

The opportunities arising from climate proofing EU funding have to be clearly communicated to Member States. Many of them lack an understanding of its importance and the numerous benefits it can offer. Often local/regional administrations do not know how to make good use of climate related measures. Therefore, clear and detailed guidance should be provided for each category of expenditure and the kinds of measures it might entail. Internal seminars/skill shares between Commission and Member State officials can help improve national/regional expertise in utilising the opportunities provided by climate-related measures. This approach was successful when EU Funds Regulations were modified to harness EU funds for energy efficiency and renewable energies for social housing as part of the European Economic Recovery Plan. Another essential aspect of this is the encouragement of pilot projects as well as the collection and promotion of good practices across European regions. This could strengthen both the administrative capacity and knowledge management of national administrations and their institutional memory.

5.2.5 Financing soft measures (institutional capacity and green jobs/skills)

Another important aspect of climate proofing Cohesion Policy funding instruments is linked to investing in the capacity of both administrators and beneficiaries to promote, manage and report climate-related projects. Some administrations have been progressive in establishing specific institutional systems ('sustainability managers' or environmental networks) or have invested in the provision of specific training for beneficiaries. The **European Social Fund** (ESF) is very well placed to promote such initiatives. As set out in Council Regulation 1081/2006/EC, the ESF is tasked with improving employment opportunities, as well as strengthening human capital and institutional capacity. The Regulation does not contain any language specifically related to the environment nor climate change in terms of new skills, jobs and administrative capacity. However, many of the priority measures could implicitly be translated into projects with climate change relevance in light of the transition to a low carbon economy.

For example, the ESF can finance projects such as: lifelong learning for low-skilled workers; developing qualifications and competences in eco-technologies and management skills; providing training and support services to workers in the context of company restructuring; providing vocational education and training with a view on innovation; and networking between relevant stakeholders. With regards to institutional capacity, ESF can support programme development through evaluations, studies, statistics and expert device and also programme delivery in terms of enforcement of legislation, continuous management and staff training, and support to other stakeholders including civil society. Therefore, although not explicitly positioned to support low carbon jobs and skills, the ESF already provides a number of options, which can be used by national and local authorities in this regard.

5.2.6 Applying conditionality

Attaching conditionality requirements to the provision of EU public financing is another way to horizontally mainstream climate change objectives in non-climate related funding. Applying conditionality can take different shapes and forms:

- **Eco-conditionality**

Additional measures can be introduced by adding new conditions to the provision of traditional expenditure such as different types of pricing (internalising social costs) or integrating whole-life costing approaches; or another example would be to make funding conditional on the implementation of key legislation dossiers (e.g. the implementation of the Eurovignette Directive). Furthermore, there can be different types of conditionality. For instance, it could be applied to Member States, which is more politically sensitive, as it may result in suspending the funding in case the Directive is not implemented on time. In contrast, conditionality to final beneficiaries is more straightforward, for instance, making the funding for public infrastructure (housing, hospitals, schools, municipal property) or business support conditional on the inclusion of compulsory energy efficiency and renewable energy measures in project proposals. Another example from the transport sector would be if funding for road transport is made conditional on the inclusion of battery-charging infrastructure for electric cars in project planning.

- **Project selection criteria (eco-compatibility**)

Conditionality can also be integrated into the project selection process. Essentially, this would imply awarding additional points to projects which incorporate climate mitigation/adaptation measures in other spending (infrastructure, housing, etc.) so that these projects can score higher in the selection process and are more likely to receive funding. This is already being applied in some Member States, e.g. France.

- **Green public procurement**

Requirements for green public procurement can be stipulated in the general EU funds Regulations governing the funds and made compulsory in the implementation of EU funded projects, so to stimulate national administrations and project promoters to opt for climate friendly goods, services and works.

Each of these approaches to conditionality probably has a place.

5.2.7 Reforming categories of expenditure

The EU Structural and Cohesion Funds' existing categories of expenditure already capture some issues concerning climate change but not in a sufficient manner. Categories of expenditure need to be modified in order to become more explicit and clearer. See the table below with concrete suggestions for modifications in certain categories of expenditure.

Table 4: Current categories of Cohesion Policy expenditure and proposals for their revision

Code	Category	Comment
06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes	This can be modified to become more explicit e.g. 'Assistance to SMEs for the promotion of eco-technologies, products and production processes that reduce the resource use of SMEs' If there is a fear that MS will choose to allocate insufficient funding for such a separate category, another option would be to introduce this measure as a form of conditionality in all funding for SMEs. A result-oriented indicator for this category of expenditure could include – 'Reduction of resource (including energy) use in absolute terms' Guidance should be provided to MS and final beneficiaries on the concrete measures which could potentially be financed under this category but also on the ancillary effects on increased competitiveness, improved productivity, reduced costs of production, etc.
20-23	Motorways, Motorways (TEN-T), national roads, regional/local roads	Funding for these four categories needs to be reformed or phased out In non-convergence countries/regions support for road construction should be phased out In convergence countries/regions support could be scaled down, focusing on maintenance, rehabilitation, installing infrastructure for electric vehicles or introducing road charging.
29	Airports	Funding for airports should be phased out

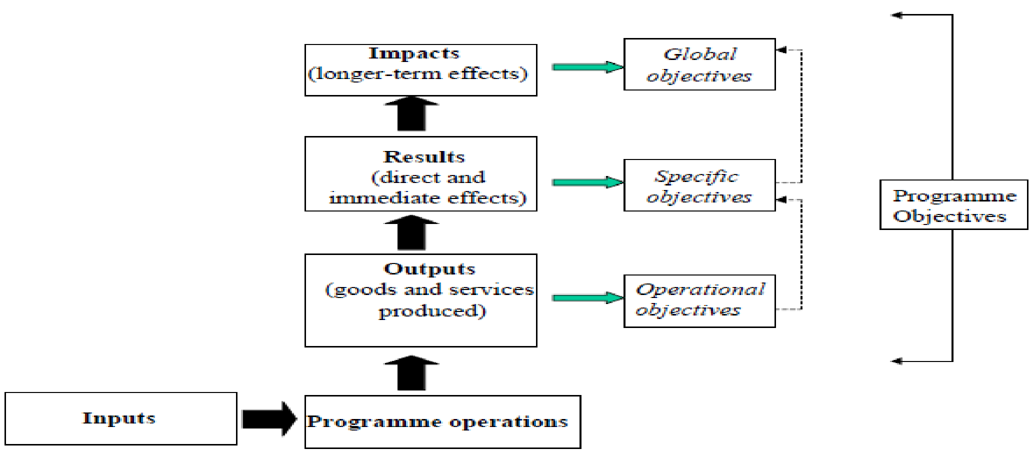
49	Mitigation and adaptation to climate change	Currently, it is unclear what this entails It needs to be clarified what mitigation means here so that it is different from other categories such as EE, RES, clean transport, etc. and to avoid duplicating actions and reporting Adaptation needs to be in a separate funding category, where different types of adaptation measures could potentially be funded (eg the three types of measures outlined in the White Paper on adaptation – 'grey' (infrastructure), 'green' (ecosystem-based) and 'soft' (preparedness, prevention, awareness and capacity building)
53	Risk prevention	A clear definition of risk prevention is needed, so as to ensure that funding under this category is different and complementary to climate adaptation funding; a list of indicative measures for action can be provided to avoid an overlap of actions
25 and 52	Urban transport and Promotion of clean urban transport	These two categories of expenditure should be made more explicit; one option would be to merge them into one to avoid confusion and overlap of actions
64	Development of special services for employment, training and support in connection with restructuring of sectors	This has clear potential to support green jobs, support system of training, prequalifying workers, etc. in the context of a decarbonisation of certain sectors, but the link to climate change should be made more explicit
72-74	Improving human capital categories	All three categories could potentially integrate explicit language on climate change and sustainable development
75-79	Five categories for public infrastructure	The construction of any public infrastructure (schools, hospitals, social, etc.) should be supported only if emission savings and adaptation measures are envisaged in the projects; this can be made explicit in the titles of these categories or ensured via conditionality and project selection criteria
81	Mechanisms for improving good policy and programme design, monitoring and evaluation	This is a crucial category where the need to invest in the administrative systems supporting the institutional set-up for EU funded projects in the field of climate change should be made more explicit This can be clearly communicated in guidance documents to Member States and even include funding for measures to set up positions such as 'sustainability managers', for example. These are all well established

		good practices for environmental integration in EU funded programmes in certain Member States.
85-86	Technical assistance	It could be made explicit that technical assistance should be used for assessing vulnerability impacts and identifying corresponding investment needs. Evaluation of GHG emissions impacts should be introduced in order to understand the impacts of EU funded programmes/projects. Building local capacity for the generation, collection and analysis of data at local/regional levels with regards to GHG emissions accounting could also be financed under this category

5.2.8 Applying carbon accounting and climate indicators

Currently, there is no monitoring and reporting system in place to measure the impact of Cohesion funding on climate change. The general indicator system is well elaborated in Working Documents 2[123] and 7[124] published by DG Regional Policy which provide Member States and regions with guidance on how to develop 'high quality system of indicators' for Cohesion Policy programmes. The indicator system proposed by the Commission constitutes a good start to integrating climate change impacts and trends into the general monitoring and reporting system. However, the system is not compulsory at the moment and it is unclear to what extent Member States have made use of the proposed core indicators and to what extent the system is being made operational.

Figure 2: Indicator system for Cohesion Policy 2007-2013



Source: DG Regional Policy, Working document 2

The overall methodology is based on the standard approach – inputs, outputs, results and impacts indicators. Working document 2 also specifies the identification of the so called 'core' indicators, which are generally intended to aid the Commission to aggregate comparative data on a limited number of key indicators linked to the objectives of Cohesion Policy, e.g. job creation, number of

[123] Working Document No 2: Indicative Guidelines on Evaluation Methods: Monitoring and Evaluation Indicators, http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd2indic_082006_en.pdf
[124] Working document No 7: "Reporting on core indicators for ERDF and Cohesion Fund", http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd7_indicators_en.pdf

R&D projects financed, etc. Annex 1 of Working document 2 lists all 'core' indicators recommended by the Commission. There is one core indicator as far as climate change is concerned – 'reduction in greenhouse gas emissions'. Additionally, core indicators for renewable energy include 'number of projects financed' and 'additional capacity of renewable energy production'; with regard to risk prevention, core indicators include 'number of project' and 'number of people benefiting from flood and fire protection measures'.

Some good examples of using progressive tools for 'carbon accounting' have been developed voluntarily in some Member States and regions. Such an example is the NECATER tool in France which is being used under the current programmes 2007-2013 to inform at a programme level upon the potential carbon emissions generated by the planned interventions. This type of tool can be valuable as it could inform the decision-making process ex-ante but also to monitor the emissions throughout the entire project cycle. The role of carbon reporting and verification of results is crucial especially in terms of regional/local capacity for data collection, monitoring and reporting.

The issue of appropriate and effective indicators in this regard is crucial and while posing many methodological and operational challenges, it needs to be taken further into consideration when designing the future monitoring and evaluation system for Cohesion Programmes. Without proper assessment or evaluation to aid decision-makers to comprehend the interrelationship between Cohesion interventions and greenhouse gas emissions, it is unlikely that the necessary feedback loops would provide sufficient data and evidence to improve Cohesion Policy and spur learning.

5.2.9 Using funding for technical assistance for climate related studies, data and statistics

The programming of climate investments based on territory specific needs and priorities requires financial resources for carrying out internal and external studies and assessments. The issue of collecting and processing regional and national data based on climate change indicators so that they can be used in planning and reporting could also be a financially intensive issue especially for some regions and municipalities. EU funding could be exploited in this sense, through allocating the technical assistance funding for data collection and evaluation in this regard. Importantly, developing studies and scenarios with regard to climate change should ideally already have commenced during the current programming period, so as to form a sensible basis for the programming period post-2013.

5.2.10 Including climate change mitigation and adaptation in JASPERS

JASPERS is a new instrument under the 2007-2013 Cohesion Policy, managed by DG Regional Policy and the European Investment Bank, which is aimed at providing technical assistance to new Member States in the preparation of big infrastructure projects. In this respect, the mandate of JASPERS can be expanded to include some sort of climate proofing expertise at the level of individual investment project. Very often, project proponents might not have the relevant expertise or not consider climate change considerations in the feasibility studies, so in this regard external assistance could become valuable. For instance, JASPERS can be involved in assessing the carbon intensity of different alternative options as part of the feasibility studies for bigger infrastructure projects or provide expertise on integrating climate adaptation measures at their design stage. In some instances, JASPERS is already involved in the preparation of 'groupings' of smaller scale energy projects which could be also considered a step in the right direction.

5.2.11 Innovative financial engineering

Two main approaches are suggested to interpreting these as far as climate change is concerned – one concerning new ways of revenue raising and another applying new approaches to already existing fiscal instruments. The former would entail instruments such as pricing of carbon emissions (e.g. carbon tax, auctioning of carbon allowances) as additional sources for the EU budget and/or private financing leveraged by public funding (e.g. public-private partnerships, private insurance, etc.). The latter approach could be associated also with instruments enhancing the leverage effect of public finance, such as blending grants and loans, guarantee schemes, risk-bearing instruments and equity[125]. Both these approaches could play a role in designing the future EU budget but also mechanisms to deliver the objectives of Cohesion Policy.

For instance, the Commission has developed the so called 'innovative financial engineering' instruments for the 2007-2013 Cohesion Policy. These are usually developed and implemented by the Commission in close cooperation with the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Bank (CEB). Their objective is to enable the most efficient and sustainable use of Structural and Cohesion Funds. Two such instruments are the JEREMIE (Joint European Resources for Micro to Medium Enterprises), JESSICA (Joint European Support for Sustainable Investment in City Areas) and JASMINE (Joint Action to Support Micro-finance Institutions in Europe). JEREMIE for instance fosters greater access of SMEs to finance through the provision of revolving funds instead of one-off grant financing with the aim of strengthening the multiplication effect of Community funding. JESSICA allows Managing Authorities to 'recycle' some of their European Structural Funds in order to enhance and accelerate investment in urban areas. All of these novel financial engineering instruments could be revisited in view of strengthening their application, usability and effectiveness with regards to climate change activities under the future Cohesion Policy.

[125] EC 2010

6 Working conclusions

Climate change policies – both mitigation and adaptation – have steadily been gaining prominence in EU policy making in recent years. The CARE package was adopted in 2008 and a White Paper on climate change adaptation was published in 2009. The new European Commission established a separate DG Climate Action and appointed the first ever Climate Change Commissioner at the beginning of 2010, thereby strengthening the institutional basis for climate change policy in the EU. In the mean time, a number of studies have explored the economic cost of climate change impacts pinpointing the urgent need for action in terms of facilitating decarbonisation and ensuring the resilience of key economic sectors and policy domains. Essentially, the 20/20/20 climate and energy targets were adopted as one of headline targets of the new overarching economic strategy Europe 2020, endorsed by the European Council in June 2010, which situates climate and energy considerations closer to traditional overarching economic and social objectives.

The implication of the increasing centrality of climate change in EU policy-making would require substantive financial resources, both public and private. Therefore, the debate on the reform of the future EU budget and the different funding instruments are particularly relevant. The economic case for important co-benefits which climate change actions could deliver for the social and economic domains provides additional rationale for the role of EU budget/Cohesion Policy in this regard.

This interim report is a work-in-progress aimed at exploring and devising strategies and instruments for 'climate proofing' the EU budget in general and the EU Structural and Cohesion Funds in particular. As such, at this stage, it provides a framework for developing the thinking of policy actors with regard to what climate proofing implies in the context of the EU budget review and how it could be operationalised in practice in the legislative proposals for the post-2013 multi-annual financial framework. In this sense, it is open for constructive comments and feedback, which would contribute to the final report, due at the end of 2010.

The working definition of 'climate proofing' entails the exploration of both mitigation and adaptation actions with regard to Community funding. The assumption is that 'climate proofing' is manifested by ensuring policy coherence between traditional sectoral/economic and climate change objectives at a strategic level, which should lead to concrete outcomes with regard to facilitating the decarbonisation of and strengthening the resilience of the EU economy. To achieve this, it requires the development of 'climate proofing' strategies for the EU budget, which can be seen as dynamic, complex processes involving a number of diverse actors, institutions and procedures. The latter would vary depending on the economic sector, level of governance and timeframe.

Such strategies and instruments for 'climate proofing' the EU budget cannot be discussed or implemented in isolation from other issues subject to debate. For instance, the fact that the EU budget is limited in size and is unlikely to grow should be taken into account. Furthermore, any proposals to reduce current levels of financing from the CAP or Cohesion Policy would face opposition among some Member States or interest groups. At the same time, proposals for introducing additional conditionality and monitoring procedures would be challenged by the agenda for simplification of procedures and cutting red tape. Therefore, there might need to be some prioritisation of strategies and instruments for climate proofing the EU budget or even a certain trade-off between them. Ultimately, however, there is a growing consensus that the Union's budget is largely out of date and given the evolving political priorities of the EU and the newly emerging global challenges, it needs to be reformed accordingly.