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Mainstreaming the environment and climate change in the post-2013 EU budget

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Key Messages

- The financing of climate change and environmental protection is envisaged to be delivered largely by their 'mainstreaming' across the 2014-2020 EU budget. This approach is welcome as it can realise important co-benefits for different policy areas. The quantified earmarking target proposed for climate change is definitely a step in the right direction;
- However, the success of a mainstreaming strategy depends on its operationalisation in practice. The current approach needs further development. The proposal features specific provisions on climate change mitigation which are laudable. However, it contains only vague provisions to address other environmental priorities such as biodiversity and more efficient resource use. Effective mechanisms need to be put in place to deliver mainstreaming across key policy areas and avert the risk of policy failure;
- Another priority is reforming potentially harmful expenditure. Effective climate and biodiversity proofing of investments should be made a more integral part of the mainstreaming approach of the future EU budget. The Commission's draft regulations are therefore crucial.

A new EU budget, a new opportunity for the environment and climate change

On June 29 2011, the European Commission formally tabled its proposals for the Multi-annual Financial Framework (MFF) for 2014-2020. The package includes a two part Communication. The first, setting out the principles, priorities, structure, duration and the size of the MFF. The second, containing 'policy fiches' which spell out specific objectives, instruments, implementation mechanisms and budget allocations for the different policy areas, e.g. agriculture and rural development, Cohesion Policy, infrastructure, etc.

Commanding over a trillion Euro, the next period of the EU budget is intended to deliver smart, sustainable and inclusive growth in line with the Europe 2020 Strategy. A key function is to provide a means of responding to 'persistent and emerging challenges that call for a common, pan-European approach'¹ such as environmental protection and climate change. Hence, in principle, both topics feature among the main priorities of the next MFF. ***In practice however, a key question remains: namely how to ensure that the environment and climate change are taken on board within the key policy areas and funding instruments currently being drafted.***

The Commission's proposed strategy is not to make a significant increase in the scale of funds allocated to the dedicated environmental funding instrument - the LIFE+ programme - other than the addition of a useful but modest climate component to it. Instead, **'mainstreaming' is put forward as the principal mechanism for financing environmental priorities.**

The mainstreaming approach is generally welcome. It can realise important co-benefits for the environment and climate change alongside other policy objectives and drive genuine sectoral transformations towards a low-carbon and resource efficient future if properly implemented.² However, implementation is the Achilles heel. The results of mainstreaming in the past have often been controversial; particularly in the large funds.³ The post-2013 budget may face similar challenges if mainstreaming is not adequately operationalised in the regulatory frameworks governing the relevant funding instruments.

The Commission's proposals set out some laudable ambitions for harnessing substantial resources through mainstreaming and they represent a significant step change from anything attempted previously in the EU budget. If achieved, they would amount to real progress in pursuing a sustainable model, at least for climate issues. The quantified earmarking of 20 per cent of the EU budget dedicated to climate change is a promising start. The devil however, is in the detail.

Here a careful reading of the policy fiches reveals a rather **fragmented approach to mainstreaming. Mechanisms are proposed to meet the climate change target and to green part of the CAP. However, the provisions on other environmental issues such as biodiversity and reducing natural resource use are weak.** Therefore, a priority for the forthcoming legislative proposals for each of the funding instruments is to elaborate the approach to mainstreaming both climate change and other

environmental priorities on the basis of clear and transparent accounting methods.

This policy paper analyses the proposed mainstreaming of **climate change, biodiversity and resource efficiency** in the Commission's proposals for the 2014-2020 MFF. It underlines the positive elements which have been put forward but at the same time raises a number of issues where the mainstreaming approach could falter or be obstructed. The recommendations at the end of the paper are offered as a contribution to the preparation and subsequent negotiation of the key legislative proposals, with the aim of achieving effective mainstreaming of the environment and climate change in practice.

Getting on the right track...

Mainstreaming is addressed in two ways in the Commission's proposals. One is by seeking to allocate a proportion of the whole budget to climate related expenditure. The other is to propose a greening of some key policy areas.

In order to ensure that a certain share of funding is dedicated to climate change, the Commission proposes the **earmarking of at least 20 per cent of the EU budget for climate change activities**, with contributions expected from all the major EU funds subject to impact assessment evidence. Such quantified earmarking for climate change appears for the first time in Commission proposals on the EU budget and is definitely a step in the right direction. Priorities for funding include the renovation of buildings, smart grids, renewable energy supplies and innovation in transport. Under **Cohesion Policy**, richer regions (so called competitiveness and transition regions) for example will be required to dedicate **at least 20 per cent of their funds to energy efficiency and renewable energy sources** (which is a form of quantified earmarking within Cohesion Policy itself).

Within **agriculture policy** the ambition is to 'green' the largest component of the CAP - Pillar One - which is devoted largely to income

support payments for farmers. **At least 30 per cent of direct payments** are due to be attached to 'a range of environmentally-sound practices, going beyond cross-compliance'. This is a major innovation in policy and would be in addition to the funding available for environmental purposes in Pillar Two (which unfortunately has been scaled back in real terms). This proposal could potentially result in major changes of practice on a European scale if well designed measures are put in place and monitored effectively. Although not discussed explicitly, a range of environmental objectives, not least biodiversity conservation and improved soil and water management could be addressed.

In terms of the *European Fisheries Fund*, **the proposals appear to be moving in the direction of sustainability, not just for fisheries but the broader marine environment**. The newly proposed European Maritime Fisheries Fund (EMFF) (which would replace the current EFF) would in principle concentrate support on fishing which is more selective, not producing discards and causing less damage to marine ecosystems. Fishing should be more compatible with the scientific advice on sustainable management of marine ecosystems. The EMFF is also intended to focus more on integrated and sustainable coastal development.

Development cooperation funding is a third sphere in which **biodiversity** may benefit. The potentially increased financing for global biodiversity through the EU's external action programmes and the yet to be defined thematic programme for global public goods is particularly welcome. However, the broader principles of mainstreaming biodiversity receive much less attention than climate change, and no earmarking target is proposed. The existing model of providing some EU funding for conservation and the management of Natura 2000 sites via mainstreaming and a further element through LIFE+ is broadly maintained. To increase the efficiency of EU spending, the Commission explicitly refers to the importance of **maximising synergies between biodiversity and climate finance** through funding ecosystem-

based adaptation and mitigation projects that also provide wider ecosystem services, both within and outside of the EU.

The proposals include some details, more specifically for climate change and to a lesser extent for environmental issues with a view to demonstrating how mainstreaming could be implemented in practice. These include the establishment of **explicit benchmarks, certifications of conditionality, monitoring and reporting rules** (e.g. using a 'Rio markers' based methodology for tracking climate change and biodiversity expenditure and target setting, accompanied by results indicators). For Cohesion Policy programmes for example, Member States will be required to demonstrate progress towards the 20-20-20 climate and energy targets and also to 'climate-proof' investments.

Finally, for *the LIFE+ programme*, **two separate components on environment and climate action are proposed** with a total budget of €2.4 billion and €800 million respectively. LIFE+ is expected to continue working as a platform for the exchange of best practice and as a catalyst for more effective investment given the very limited budget proposed.⁴

Making mainstreaming work

There has been an unwelcome reduction in the scale of Pillar 2 of the CAP by about seven per cent in real terms and only a very modest expansion of LIFE+. A successful mainstreaming approach is therefore critical given the small scale of dedicated environmental funds. There are some helpful signs of good intentions, such as the proposed 20 per cent allocation for climate. However, there are also weaknesses and outside the climate sphere, the position is uncertain at best.

In spite of its prominent place in the Europe 2020 Strategy, the aim of fostering **resource efficiency** across Europe has not found a real home in the Commission's proposals. Although some elements are addressed in various policy

fiches, the overall approach remains fragmented and it is unclear how different sectoral policies should address the cross-cutting challenge of improving resource efficiency. While energy efficiency is relatively well anchored, water efficiency, for example, is not addressed even though water scarcity and infrastructure needs are likely to have a significant impact on economic development in several parts of the EU in the near future. The promotion of eco-innovations in technologies and services is under-funded and opportunities for streamlining resource efficiency concerns in different funding instruments are not explicit. However, promising entry points exist, for example in the research portfolio and in the CAP.

A particular concern is that the Commission's proposals on mainstreaming biodiversity in different EU funding streams are alarmingly vague. Although the positive relationship between the costs and benefits of maintaining and restoring Europe's natural capital continues to receive increasing attention in policy discussions, biodiversity goals do not feature prominently in the Commission's proposals and nature conservation objectives seem poorly integrated in the funding priorities of different policy sectors. A dedicated chapter on environmental mainstreaming in the 'policy fiches' Communication offers hardly any concrete measures on how to put this into practise. Further details are said to be described 'elsewhere in the sectoral policy fiches'⁵, however explicit references to biodiversity are largely missing in these fiches.

The push ***for strict alignment of the future MFF with the Europe 2020 Strategy can be seen as one of the reasons for the omission of biodiversity*** given that the Europe 2020 Strategy itself falls short in addressing biodiversity. Recognising more explicit and concrete links between biodiversity and building the Green Economy⁶ (as promoted in the Europe 2020 Strategy) could help to underpin the case for mainstreaming and inform the instruments required, such as the promotion of green infrastructure. The conservation and restoration

of ecosystem services receives some attention in the Commission's proposals, in particular in relation to potential synergies with climate change mitigation and adaptation. However, investing in the maintenance of ecosystem services such as water and food provision is not sufficient as it does not necessarily guarantee the conservation of biodiversity. The protection of ecosystem services is a different priority from addressing the particular needs of Europe's habitats and species, many of which are in decline. Consequently, a shift in focus to favour ecosystem services should not result in reduced resources for conservation.

There are also a number of ***outstanding questions regarding the mainstreaming of climate change.*** Even though the Commission envisions the earmarking of 20 per cent of the EU budget for climate change related measures, equalling approximately €200 billion over a seven year period, the ***proposals do not specify how exactly the different funding instruments will deliver this target.*** One can assume that the biggest share is likely to come from Cohesion Policy which, according to the current proposals, will make up the largest element of the future EU MFF (with €336 billion). However, the Cohesion Policy fiche states that 20 per cent will be earmarked for energy efficiency and renewable energy only from one element of the Cohesion Policy budget. This is the funding available for competitiveness and transition regions, which would amount to approximately €18 billion. While this is certainly double the amount devoted to energy efficiency and renewable energy in current spending in all regions, it is nowhere near the €200 billion target. The €800 million available under the climate component of the future LIFE+ instrument alone will not fill the gap either.

The majority of funding under Cohesion Policy is allocated to convergence regions (in total €162 billion) where no specific earmarking for climate change seems to be envisaged. Furthermore, convergence regions will be allowed to allocate funds to a wider set of priority interventions, which means that it is not certain that they will

necessarily opt for investments aimed to combat climate change. Based on past behaviour, these regions have tended to target the majority of their funds on building basic infrastructure and this may not substantially change in the future. Therefore, while the principle is welcome, ***how the 20 per cent earmarking target will be achieved through the different funding instruments needs to be further clarified.***

At the same time, there is no clear indication of whether mainstreaming climate change includes action on adaptation. Currently the Commission's proposals refer mostly to energy efficiency and renewable energy. From the perspective of the broader environment, the integration of climate adaptation related measures into future spending on climate change is of strategic importance. Investment in adaptation can help to create synergies between different environmental goals, thus increasing the efficiency of funding and facilitating the mainstreaming of broader environmental aspects in the budget. For example, forging links between climate change and biodiversity through ecosystem-based adaptation measures will be particularly relevant in the coming years.

In the CAP where the approach to mainstreaming is concentrated in Pillar One, the question is whether measures will be sufficiently ambitious and effective. The ***proposed earmarking of 30 per cent of direct payments is a welcome step forward, but needs to be properly operationalized.*** If not, it runs the risk of becoming no more than 'green washing', especially if some of the proposals for new regulations, as seen in leaked documents, are not strengthened before the regulations are finalised.

The advantages of greening Pillar One are that it has a wide reach. Most farms receive these payments, sizeable sums are involved (about €40 billion per annum, although declining) and governments are not required to provide co-funding. On the other hand, the Commission argues that commitments by farmers in Pillar One can be for one year only. Moreover

measures are to be very simple and broadly applicable on all farmland, which diminishes their precision and potentially their utility. The targeted, monitored, five year or longer agreements, which can be funded through the now diminished Pillar Two, are inherently better suited to achieving environmental goals. The design and details of new Pillar One greening measures is therefore of great importance. ***Effective measures clearly linked to eligibility for other untargeted direct payments to farmers need to be put in place⁷.***

The links between Pillars One and Two are also important. The statement in the Communication that 'the Commission will make proposals to allow flexibility between the two pillars'¹ is concerning. This sounds like two-way modulation whereby Member States could not only move money from Pillar One to Pillar Two, as is currently the case, but also the reverse which could drain significant funds out of environmental measures into farm income support. ***Pillar Two needs to continue to play a leading role in funding environmental programmes in the countryside where it is pivotal.***

In spite of the progressive language on integrated and sustainable fisheries and the marine environment, there is no indication on the ***amount of funding to be dedicated to environmentally sound projects within the new EMFF.*** The level of uptake of funds for these types of projects by Member States has been low in the past and this issue needs to be addressed in the design of the new instrument.

Addressing adverse impacts in other areas

A serious drawback of the proposed mainstreaming approach is that it mainly implies an increase in the share of expenditure dedicated to climate change and environmental issues. The issue of ***potential adverse impacts on the environment/climate change from infrastructure developments is not addressed.*** Particularly disconcerting is the lack of effective mainstreaming/proofing provisions under the

freshly repackaged and scaled-up 'Connecting Europe' facility.

The '**Connecting Europe**' facility (with a total budget of €50 billion) is intended to bring together activities for the development of large scale energy, transport and ICT infrastructure currently promoted under EU's Trans-European Transport and Energy Networks. The facility is to fund projects which are 'consistent with sustainable development criteria'. However, a pre-defined list of potential projects annexed to the proposals⁸ seems to imply that regardless of such criteria, the political decision on the main priority projects has already made. Potential energy projects mainly include oil and gas pipelines and electricity distribution lines, renewable energy and smart grids are hardly mentioned. Transport projects will receive most of the funding (approximately €30 billion, including €10 billion earmarked from the Cohesion Fund) and although the majority of potential projects promote railway development, a number of road projects are hidden under the 'multi-modal' transport label. This seems to imply that funding under the new facility is 'reserved' for large scale infrastructure and does not necessarily prioritise the decarbonisation and resilience of Europe's energy and transport systems. Such a scenario could be seriously detrimental and counterproductive to mainstreaming attempts under other funding instruments and jeopardise the achievement of the EU's low carbon agenda.

Improving the performance and results of EU expenditure

The mainstreaming of climate change and biodiversity in the EU budget has often been criticised in the past, particularly for the inability to report expenditure in a transparent and accountable manner.⁹ Thus, it is not surprising that a cornerstone of the proposed mainstreaming approach is an OECD based methodology known as the '**Rio markers**' which tracks spending on climate change, biodiversity and desertification¹⁰. This is of course a step in the right direction. On the one hand, the Rio

markers methodology is already developed and increasingly being used, including at EU level. In reporting terms it can provide a link between EU and international levels, for example in relation to the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity. However, the OECD itself notes that the **Rio markers methodology is imprecise and provides only an indication of the policy objective of spending.**¹¹ **Moreover, it does not say anything about actual outcomes and results.**

Therefore in order to be useful in the context of the EU budget, the **Rio markers methodology needs to be further developed** so that transparent and adequate categories of expenditure on climate change and/or biodiversity are established. Furthermore, reporting rules should go beyond the accounting of expenditure to also require the measuring of progress against environment and climate targets, conditionalities and result indicators.

How to ensure that mainstreaming delivers in practice?

If mainstreaming is to meet the ambitions on the scale required, much rests on the detailed design of the forthcoming legislative proposals on the different EU funding instruments in terms of whether or not they will deliver a real greening or will run the risk of instituting a large scale 'green washing'. There is considerable cause for concern, particularly with regard to biodiversity and resource use issues.

In designing and negotiating the proposals there are central issues for each fund and policy area. In the CAP for example, the feasibility of meeting environmental goals for biodiversity, soil, water, climate and other concerns via the proposed approach in Pillar One has yet to be established. More generally though, there are four areas which need to be considered:

- Not only is there a need for quantified targets for **thematic earmarking** where

appropriate, e.g. for climate change and in the CAP, but also detailed **rules and processes whereby this can be achieved in practice over the seven year period** need to be developed. Identifying transparent categories of expenditure to count towards the earmarking target is likely to be a difficult exercise but a critical element of a successful strategy;

- Effective mainstreaming should not only secure increased spending in target areas but also try to ensure that harmful expenditure is reformed and potential adverse impacts on the environment and climate change are eliminated or mitigated. This means that investments under the Connecting Europe facility, Cohesion Policy and CAP should be **climate- and biodiversity proofed**. To achieve this, specific environmental and climate change selection criteria need to be established early in the policy process to favour more environmentally sound interventions; supporting policy instruments e.g. Strategic Environmental Assessment, Environmental Impact Assessment and carbon screening tools rigorously applied; and impact indicators used to monitor environmental and climate change pressures arising from investment projects particularly in the fields of transport and energy infrastructure;
- **Monitoring and reporting requirements** need to be improved significantly based on transparent categories of expenditure which take account of climate change and biodiversity spending. Such requirements should be established, not only to track expenditure but also to measure progress against environmental and climate change objectives, targets, conditionality and result indicators, thus focusing efforts to improve both the transparency and the performance of spending. While strengthening

monitoring and the reporting of results will entail some additional administrative costs in the short-term, it will realise significant economic efficiency gains in the long-term;

- The use of **conditionality and performance incentives** should be strengthened considerably beyond the current Europe 2020 objectives and targets, with a view to achieving specific environmental ones such as those set out in the EU Biodiversity Strategy. Explicit provisions in this regard should be spelt out in the regulatory frameworks for each expenditure programme. This would mean that progress (or the lack thereof) towards environmental objectives is linked to the allocation of funds from the performance reserve or penalised by the suspension of funds respectively. Such provisions are important in creating appropriate incentive structures to improve the performance and results of EU expenditure.

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