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HOW THE EU BUDGET POST-2020 CAN SERVE HIGHER CLIMATE AMBITION

BRIEFING PAPER

Climate Action Network (CAN) Europe is Europe's largest coalition working on climate and energy issues. With over 140 member organisations in more than 30 European countries - representing over 44 million citizens - CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.

> *"Making our budget an integral part of the energy transition means aligning it to the maximum possible extent with our policy objectives. Climate mainstreaming is a powerful vehicle for ensuring financial support for our 2030 energy and climate policy target and longer-term decarbonisation goals. This has worked well. Setting a 20% target for climate-related spending has put consideration of climate and clean energy at the centre of design and implementation of all EU programmes. This also means ensuring that the EU budget does not finance actions that are incompatible with our ambitions in terms of climate policy and clean energy transition."*
> *(EU Commissioner for Climate Action & Energy, Miguel Arias Cañete, 7.11.2017)*

'More for more': How the EU budget can serve the achievement of 2030 climate and energy targets in line with the Paris Agreement.

The European Union will need to ratchet-up its climate ambition for the next decade [1]. The forthcoming EU budget post-2020 is a crucial tool to serve higher climate ambition for 2030, catalysing the zero-carbon transition of our societies towards 100% renewables and fully energy efficient economies, including the phasing out of fossil fuels. To that end the next EU budget must enshrine an incentive scheme that addresses ambition and delivery gaps of the EU 2030 climate and energy framework.[2] In addition, a system for climate proofing the entire EU budget needs to be established.

I. The EU needs to ramp up its climate action

Through the Paris Agreement on climate change, the EU committed to keep global warming well below 2°C and to pursue efforts to limit it to 1.5°C (compared to pre-industrial levels). Translated into emissions pathways, this means that carbon neutrality must be achieved globally in the second half of this century the latest. The Paris Agreement also aims to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". In other words, by signing the Paris Agreement, the EU committed itself to become carbon neutral and to design their policy instruments – including the EU budget – accordingly.

[1] According to a report from the United Nations Environment Programme, countries' pledges under the Paris Agreement, including the EU's 2030 target of 40% emission reductions, will only bring a third of what is needed to avoid worst impact of climate change; at the COP23 in Bonn the Netherlands and France announced their intention to revise upward European ambition on climate action for 2030, with the Dutch climate minister calling for an emission reduction target of up to 55%, compared to 40% currently.

[2] Read more about how the EU budget can serve higher climate ambition here: http://www.caneurope.org/publications/can-europe-positions/1474-position-on-the-eu-budget-post-2020

However, the EU's 2030 climate and energy framework currently under negotiation is not in line with the EU's commitments to the long-term targets of the Paris Agreement. The EU Council agreed on the proposed 2030 climate and energy targets before the Paris Agreement was adopted, based on a 80% GHG emission reduction pathway by 2050 for the EU. These targets do not represent the necessary level of ambition needed to genuinely pursue efforts to limit global temperature rise to well below 2°C, not to mention 1.5°C.

The EU budget needs to serve higher climate ambition
It is crucial that the next EU budget strengthens the EU's climate objectives and policies, including the achievement of 2030 climate and energy targets. It must be designed with that perspective in mind. The money spent and the projects funded must be in line with the objective of paving the way towards a zero-carbon economy. Hence the EU budget should:

- help build a strong domestic market in renewable energies and support a 100% renewable power system;
- put energy efficiency first in investment plans and programmes, e.g. to speed up the renovation of the building stock;
- roll out zero-emission mobility and the decarbonisation of the transport sector;
- provide for opportunities to foster technological leadership and innovation in the development of clean and sustainable renewable energy solutions;
- boost climate change mitigation and adaptation in forestry and in the reform of the Common Agricultural Policy to ensure that farming practices are genuinely contributing to resilient ecosystems and sustainable management of natural resources and to climate action;
- strengthen resilience to climate change by integrating a revised EU Adaptation Strategy so that it reaches the most vulnerable communities, sectors and regions that will suffer the impacts of climate change more severely;
- also help to put citizens at the heart of the clean energy transition by providing tailored financial support to communities and vulnerable households and supporting the Just Transition in regions with particular transformation challenges.

At the same time the EU budget needs to become 100% climate proof: EU money cannot be used for projects that, by driving additional GHG emissions, would be at odds with the climate commitments made.

II. Climate mainstreaming – EU funding for National Energy and Climate Plans

The next EU budget will be crucial to deliver on the National Energy and Climate Plans (NECPs), the main tool within the EU's governance framework which seeks to achieve 2030 climate and energy targets. Spending half of the current EU budget (€67 billion in 2014) on energy infrastructure, transport, housing and waste management, small and medium sized enterprises, research and innovation and the development of Europe's regions, the EU budget is the EU's main investment instrument for all 5 dimensions of the Energy Union. To this end, the EU budget should be linked to the Energy Union governance framework by establishing a financial mechanism which incentivises higher climate and clean energy ambition throughout all five dimensions of the Energy Union.

The EU's governance framework for 2030 envisages Member States to develop their country's NECPs for the period 2021-2030 to fit the EU's climate and energy targets and present an outlook of their long-term vision. The NECPs also require Member States to report on financing measures taken at national level in various areas such as renewable energy, energy efficiency and connectivity, including actual financing commitments, EU support and the use of EU funds as such.

NECPs can as well serve to identify investment needs for achieving the specific targets and matching those needs with financing commitments. The targeted use of EU funds to deliver on climate and energy targets within the 2030 framework will thus increase the European added value of EU financial support on national level. Finally, it can provide for long-term planning and investment certainty which private investors seek.

More EU funding for higher climate pledges: an incentive scheme for Member States ensuring maximum leverage and impact of EU budgetary support

The decarbonisation objective that is enshrined in the Paris Agreement requires Member States to make investment decisions necessary to meet their long-term climate protection obligations and avoid stranded assets. These investment decisions should be guided by NECPs and longer-term strategies in line with the objectives the Paris Agreement. In order to incentivise Member States to aim for high objectives along all dimensions of the Energy Union the clear integration of EU funding and climate and energy plans needs to move one step further: the new period for EU funds post-2020 will be implemented in parallel with the Energy Union framework for 2021-2030, allowing for the explicit integration of the Paris objectives and accordant requirements for Member States throughout the NECPs and the post-2020 EU funding frameworks. The new EU budget should link its allocations to the EU's climate challenges and priorities. Post-2020 EU funding should include an incentive scheme which links allocations of EU funding to the respective level of climate ambition laid down by Member States in their NECPs, thus functioning as an appropriate measure to ensure the achievement of overarching energy and climate targets. Linking EU funding to NECPs will help to address inconsistencies and insufficient ambition of those plans.

A performance reserve scheme should be created, e.g. from unallocated capacities or directly from Member States' envelopes, either centrally managed or as a 'hold back' by Member States. Such a scheme would incentivise increased climate and clean energy commitments laid down in NECPs, providing for more EU funding in order to pursue increased national clean energy objectives – i.e. 'more for more'.

This 'more for more' mechanism would represent a way for the EU to address its insufficient ambition with regard to the objectives of the Paris Agreement. It offers one possible 'response to insufficient ambition of integrated national energy and climate plans and insufficient progress towards the Union's energy and climate targets and objectives' under Article 27 of the regulation on the Governance of the Energy Union, the 'ambition gap' and the 'delivery gap'.

Ensuring climate ambition in line with the objectives of the Paris Agreement

A tool to contribute to higher climate ambitions in line with the Paris Agreement, respectively one possible 'measure at Union level' to address potential ambition and delivery gaps would consist of a performance reserve established under the post-2020 EU budget. The European Commission's assessment of submitted NECPs and the consideration of measures to ensure the achievement of the EU targets will overlap with the programming process of Member States investment plans (Partnership Agreements and Operational Programmes) and the development of the centrally managed infrastructure and innovation programmes.

The EC's NECP assessment should thus inform the programming process on national and regional levels, as well as the development of the centrally managed infrastructure and innovation programmes. A 40% climate action earmarking throughout all relevant programmes (for example, European Structural and Investment Funds, funding for agriculture, the Connecting Europe Facility and the Horizon2020 research and innovation programme) should ensure a robust basis for investment planning coherent with ambitious NECPs. Then national 'EU budget envelopes' could be topped up to meet higher climate pledges.

Following the adoption of the Paris Agreement, the EU will need to commit to higher 2030 climate and energy targets by 2020. Anticipating this increase, Member States should identify what additional EU funding – on top of agreed envelopes – will be needed to meet higher climate ambitions, and demonstrate how it will be used. These 'on-top' allocations would be funded from the performance reserve.

Following an assessment of the progress made by Member States in achieving their national objectives, the European Commission should release resources from the performance reserve to those programmes and projects with the highest potential to realise additional climate and clean energy ambitions. Member States would need to adjust their spending plans during the mid-term revision of the programmes accordingly.

Such an climate ambitions incentive scheme could be laid out in **a set of conditionalities for the next EU budget**:

- 40% climate action earmarking throughout all relevant programmes (in terms of the current MFF this would be the European Structural and Investment Funds, the Connecting Europe Facility and the Horizon2020 research and innovation programme); this should include increased Project Development Assistance for climate action projects. Higher EU co-financing rates should be granted for projects according to the level of contribution to climate goals.
- National envelopes and allocations from the post-2020 EU budget should be linked to EU climate policies and priorities and conditioned to the national objectives and level of ambition with regard to the 2030 targets for greenhouse gas emission reductions, renewable energy, energy efficiency and electricity interconnection, respectively all dimensions of the Energy Union in particular in the light of the long-term objectives of the Paris Agreement and the Sustainable Development Goals.
- In order to address any 'ambition gap' in relation to meeting ambitious 2030 objectives in line with the Paris Agreement, the Commission and Member States should take into account the level of ambition set in NECPs on all 5 dimensions of the Energy Union during the planning and programming of EU funding from the post-2020 Multiannual Financial Framework. The Commission, in setting priorities, objectives and conditions for EU funding post-2020, should ensure that EU funding contributes to increasing national climate and energy objectives. National 'EU budget envelopes' could be topped up to meet higher climate pledges.
- In order to close any 'delivery gap' within the EU's 2030 climate and energy framework and the requirements of the Paris Agreement, the Commission should, as a 'measure at Union level', establish under the post-2020 Multiannual Financial Framework a performance reserve or flexibility instrument e.g. from unallocated capacities or directly from national envelopes, which should be earmarked for measures with a high potential to achieve the overarching EU climate objectives; the release of such a performance reserve should be granted centrally-managed, as part of the Commission recommendations to Member States in order to incentivise a review of national energy and climate plans aiming at increased overall ambition in particular as regards the 2030 targets for energy and climate.

III. Climate proof the entire EU budget

Whereas the quantitative climate action target is an important element, the Paris Agreement requires all financial flows to be made consistent with zero carbon and clean energy development. This requires the EU to not only meet a climate specific spending target, but also that the entire EU budget has to be 100% climate proof. Hence a system for climate proofing the entire budget needs to be established.

Presently, the EU has in place a number of environmental assessment tools, in particular the Strategic Environmental Impact Assessment (SEA) for investment plans and programmes. However, they are not fully appropriate to cover the long-term decarbonisation requirements of the EU and the use of EU funds. Existing impact assessments should be complemented by a new Climate Impact Assessment (CIA) instrument for all programmes of the EU budget.

This should result in an up-to-date transparent and robust climate proofing assessment being applied to funding programmes (as well those centrally managed by EC) and project proposals submitted to the European Commission, as well as those on national and regional level. It should also assess whether projects will adequately contribute to achieving the 2030 and 2050 EU climate and energy objectives and to the efforts to reduce overall consumption of fossil fuels, including gas.

Every EU budget line should be subject to regular monitoring and reporting on how it is contributing to the EU's decarbonisation goals, including an ex-post assessment of real emission reductions achieved. In consequence, the Commission should immediately carry out a comprehensive, cross-sectorial study of the impact of funding granted from the EU budget on the mitigation of climate change, on risk stemming from climate change and adaptation plans and measures. In this context the European Commission should review its so called 'climate action tracking' methodology to get a more realistic picture about the volume and actual impact of climate action spending of the EU budget. There needs to be more scrutiny about what is accounted for as climate change mitigation and adaptation.

For the post-2020 period, any EU funding which is not compatible with the greenhouse gas emissions reduction target of the EU should be discontinued. Every budget line and investment plan and programme should undergo a mandatory ex-ante climate compatibility check which applies to every new EU supported investment from post-2020. The results of the assessments should be made public in a transparent and accessible way.

Such a **climate compatibility check** should take a programme (GHG) lifecycle approach within a long-term/2050 perspective to avoid climate adverse effects of interventions and to ensure climate benefits. This needs to include improved GHG emission accounting systems. In consequence such climate compatibility would lead to directing investments towards the most resource-efficient and sustainable options; it would avoid investments that may have a negative climate impact as it would take a long-term perspective when 'life-cycle' costs of alternative options for investment are compared.

Phasing out Fossil fuel subsidies

The phasing out of fossil fuel subsidies at national and EU level[3] should be an integral part of the 2030 climate and energy framework. The EU has to develop and roll out an action plan to phase out fossil

[3] http://www.caneurope.org/publications/blogs/1471-report-phase-out-2020-monitoring-europe-s-fossil-fuel-subsidies

fuel subsidies in Europe and explicitly include fossil fuel subsidy phase out in the EU's Energy Union governance framework. Specifically, the governance framework should require Member States to use their NECPs to increase transparency of fossil fuel subsidies through consistent monitoring and reporting on fossil fuel subsidies and progress in phasing them out. This should include a requirement to describe the policies, timelines and measures planned by Member States[4] .

National and regional capital raising plans leverage private capital in conjunction with NECPs

In particular for more developed regions with well-developed and liquid financial markets NECPs could be the stepping stone in the process of bringing the EU budget in line with the energy transition by encouraging Member States to use them as energy and climate investment plans.[5] NECPs could be designed as a coherent policy strategy to translate sustainable development ambitions into investment opportunities. Member states could herewith provide a capital-raising plan indicating to investors how they intend to mobilise the capital needed to meet their 2030 goals and the long-term climate and energy obligations of the Energy Union and the Paris Agreement.[6]

The EU bank and financial instruments to complement higher ambition efforts

The European Investment Bank (EIB) and in particular the European Fund for Strategic Investments (EFSI) have to become 100% climate proof as well[7] and need to deliver on EU's long-term zero-emissions pathways. Their lending and financing portfolios should embrace all dimensions of Member States' National Energy and Climate Plans.

-ENDS-

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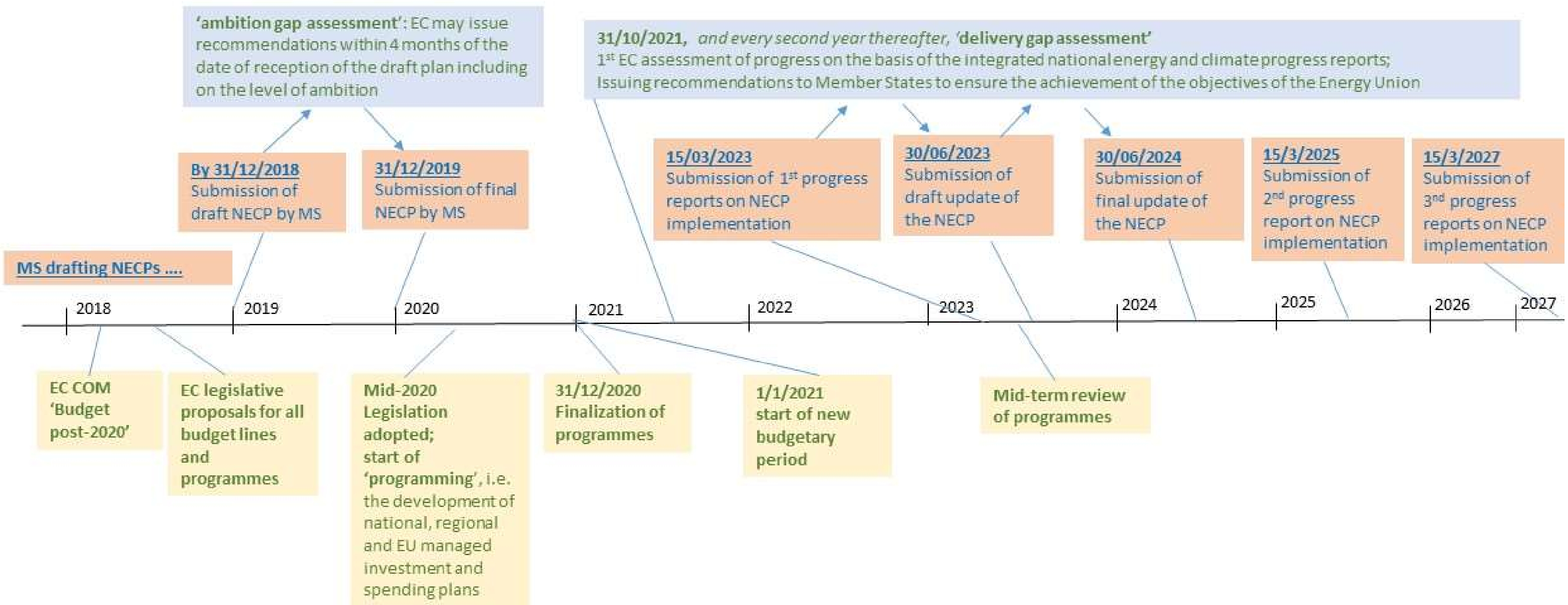
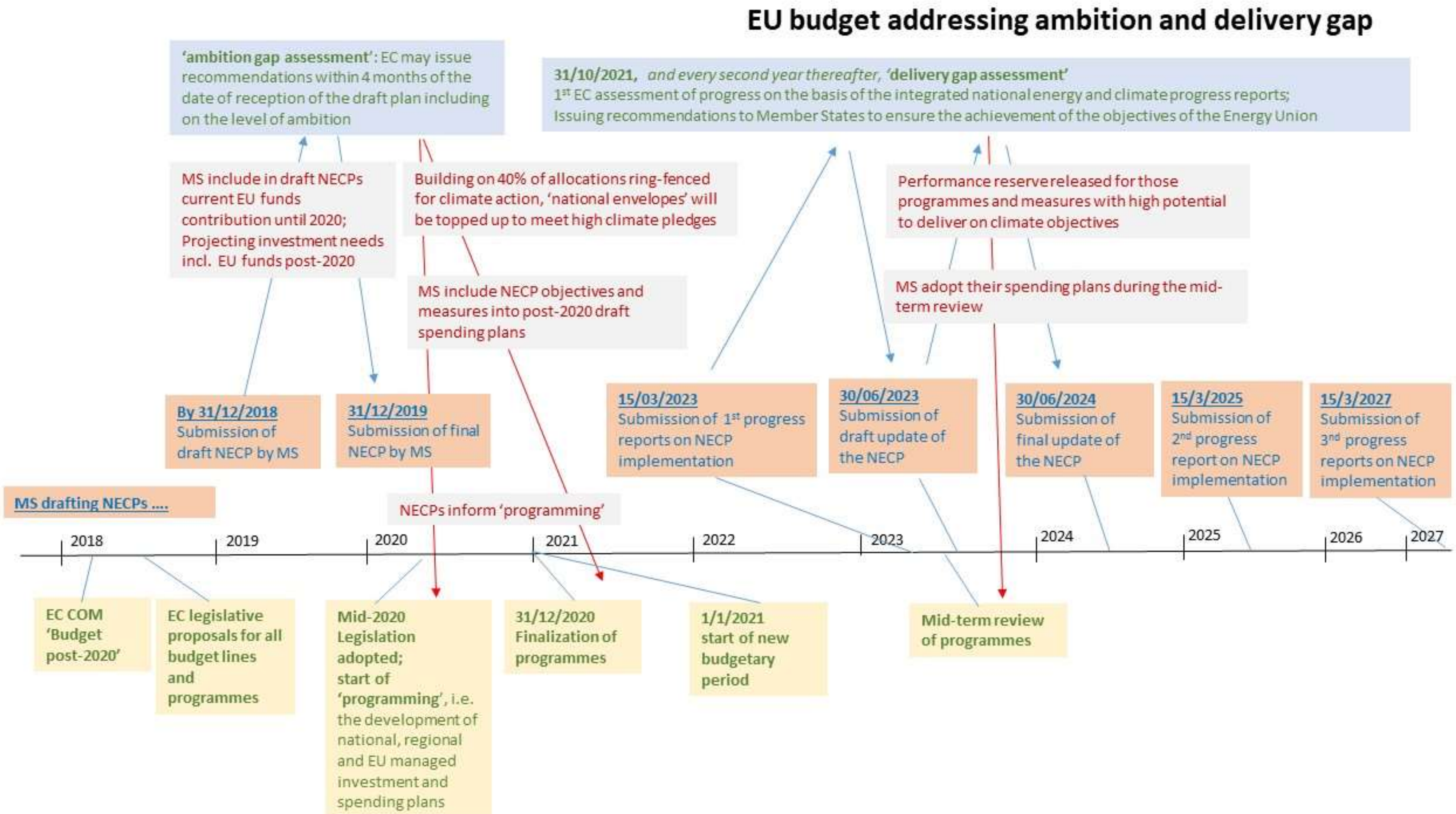
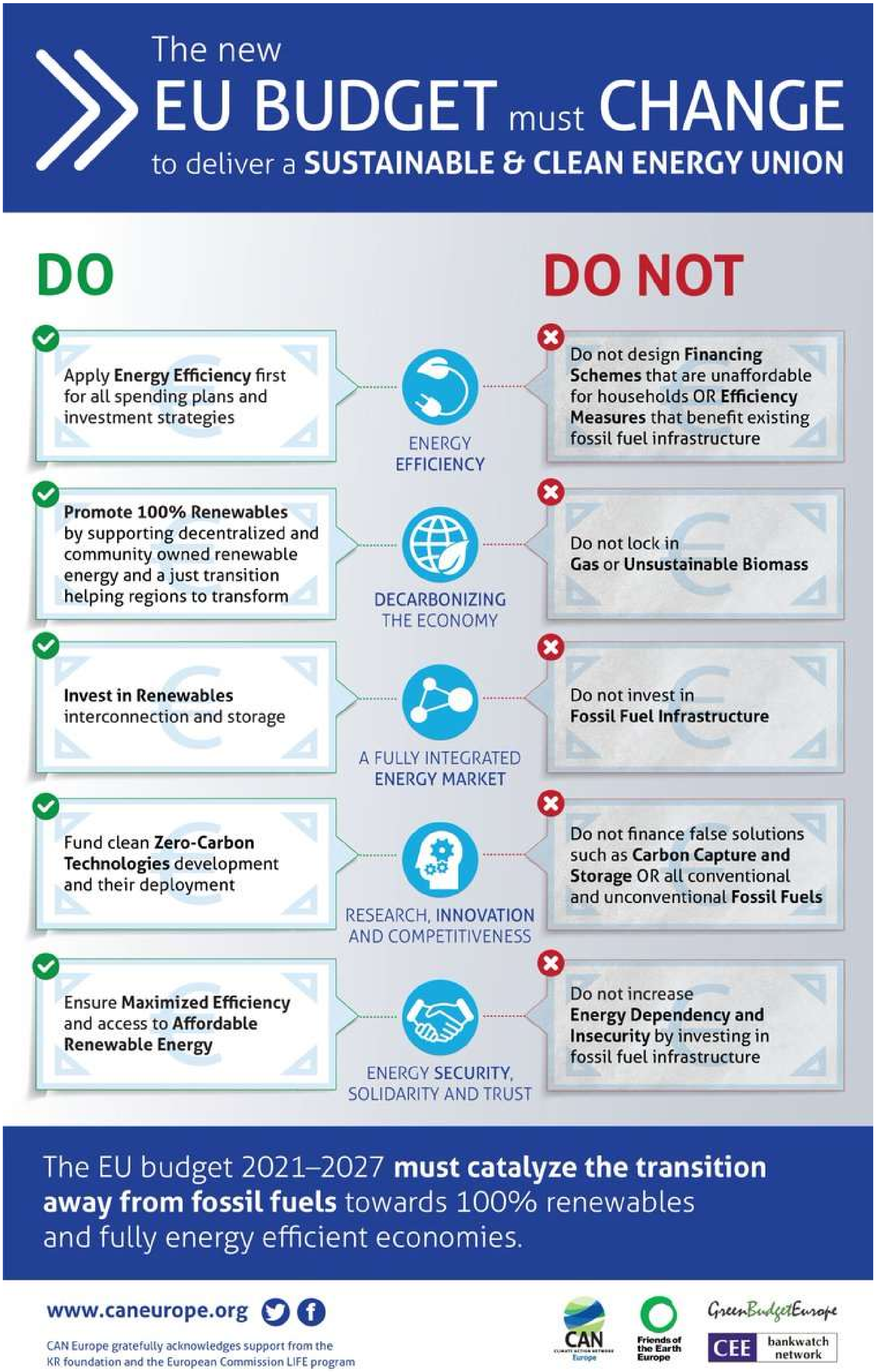
[4] http://www.caneurope.org/docman/fossil-fuel-subsidies-1/3232-eu-briefing-policy-recommendations-fossil-fuel-subsidies-phase-out-oct-2017/file
[5] https://ec.europa.eu/info/publications/170713-sustainable-finance-report_en
[6] https://ec.europa.eu/info/sites/info/files/sustainable-finance-report-summary-august2017_en.pdf
[7] http://www.caneurope.org/docman/fossil-fuel-subsidies-1/3250-report-doing-the-same-thing-and-expecting-different-results/file

Energy Union governance interlinked with EU budget cycle




EU budget addressing ambition and delivery gap
'ambition gap assessment': EC may issue recommendations within 4 months of the date of reception of the draft plan including on the level of ambition
31/10/2021, and every second year thereafter, 'delivery gap assessment'
1st EC assessment of progress on the basis of the integrated national energy and climate progress reports;
Issuing recommendations to Member States to ensure the achievement of the objectives of the Energy Union
MS include in draft NECPs current EU funds contribution until 2020; Projecting investment needs incl. EU funds post-2020
Building on 40% of allocations ring-fenced for climate action, 'national envelopes' will be topped up to meet high climate pledges
Performance reserve released for those programmes and measures with high potential to deliver on climate objectives
MS include NECP objectives and measures into post-2020 draft spending plans
MS adopt their spending plans during the mid-term review
By 31/12/2018 Submission of draft NECP by MS
31/12/2019 Submission of final NECP by MS
15/03/2023 Submission of 1st progress reports on NECP implementation
30/06/2023 Submission of draft update of the NECP
30/06/2024 Submission of final update of the NECP
15/3/2025 Submission of 2nd progress report on NECP implementation
15/3/2027 Submission of 3rd progress reports on NECP implementation
MS drafting NECPs ....
NECPs inform 'programming'
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
EC COM 'Budget post-2020'
EC legislative proposals for all budget lines and programmes
Mid-2020 Legislation adopted; start of 'programming', i.e. the development of national, regional and EU managed investment and spending plans
31/12/2020 Finalization of programmes
1/1/2021 start of new budgetary period
Mid-term review of programmes


The new
EU BUDGET must CHANGE
to deliver a SUSTAINABLE & CLEAN ENERGY UNION
DO
DO NOT
Apply Energy Efficiency first for all spending plans and investment strategies
ENERGY EFFICIENCY
Do not design Financing Schemes that are unaffordable for households OR Efficiency Measures that benefit existing fossil fuel infrastructure
Promote 100% Renewables by supporting decentralized and community owned renewable energy and a just transition helping regions to transform
DECARBONIZING THE ECONOMY
Do not lock in Gas or Unsustainable Biomass
Invest in Renewables interconnection and storage
A FULLY INTEGRATED ENERGY MARKET
Do not invest in Fossil Fuel Infrastructure
Fund clean Zero-Carbon Technologies development and their deployment
RESEARCH, INNOVATION AND COMPETITIVENESS
Do not finance false solutions such as Carbon Capture and Storage OR all conventional and unconventional Fossil Fuels
Ensure Maximized Efficiency and access to Affordable Renewable Energy
ENERGY SECURITY, SOLIDARITY AND TRUST
Do not increase Energy Dependency and Insecurity by investing in fossil fuel infrastructure
The EU budget 2021–2027 must catalyze the transition away from fossil fuels towards 100% renewables and fully energy efficient economies.
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