



CLIMATE MAINSTREAMING AND CLIMATE PROOFING: THE HORIZONTAL INTEGRATION OF CLIMATE ACTION IN THE EU BUDGET – ASSESSMENT AND RECOMMENDATIONS

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 150 member organisations from 35 European countries, representing over 1.700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

I. Executive summary

The EU budget is the EU's main investment instrument crucial for many sectors of the EU economy¹ such as energy, transport, housing, resource use or the farming sector. It can play a critical role in the fight against climate change by catalysing the transition towards zero emission energy and transport systems based on renewable energy and energy savings. It can promote sustainable and healthy urban living, eco-friendly and sustainable food systems and the circular economy.

The European Commission proposes to set a goal for climate-related spending of 25% of the total Multiannual Financial Framework 2021-2027 (MFF). This means that around €320 billion of the EU budget should contribute to climate objectives over the period 2021-2027, representing an increase of €114 billion compared to the current 2014-2020 framework with its 20% climate action target.

Specific climate spending targets have been included in the relevant sectoral legislation (see Figure 2: 'Climate mainstreaming scenarios in the MFF 2021-2027'), called '**climate mainstreaming**'. In addition to this quantitative approach the European Commission aims to establish, here and there, a concept of '**climate proofing**' of investments that would assess the risk of built infrastructure towards changing environmental and climate patterns and that would measure - to a certain extent - the climate impact of certain EU funded projects.

However, both climate mainstreaming and climate proofing as proposed by the European Commission fall short of unleashing the EU budget's full potential. The quantitative target is

This paper assesses the main climate action elements of the EC legislative proposals for the EU budget 2021-2027, in particular Cohesion Policy, the Connecting Europe Facility, InvestEU and the Common Agricultural Policy, and provides for recommendations to improve the climate action performance of the EU budget:

- I. Executive summary
- II. Background: climate change, climate action and the EU budget
- III. Climate mainstreaming
- IV. Climate proofing
- V. Conclusions

¹ Half of the EU budget (€67 billion in 2014) is spent on energy infrastructure, transport, housing and waste management, small and medium-sized enterprises, research and innovation and the economic development of Europe's regions. Another large part (€55 billion in 2014) goes to European farmers and into Rural Development. However, currently the EU budget's potential to support the clean and just transitions in all these sectors is largely untapped: <http://www.caneurope.org/docman/fossil-fuel-subsidies-1/3184-can-europe-position-on-the-eu-budget-post-2020-september-2017>

far below what is possible and needed to truly implement the EU's commitments under the Paris Agreement.

Furthermore, solid safeguards to steer sustainable funding decisions and to make the future budget fossil-free and fully climate proof are still missing, incoherent or scattered.

Figure 1 below illustrates elements of the horizontal integration of climate action in the EU budget. Based on this architecture CAN Europe recommends ways to improve the climate action performance of the EU budget via the two dimensions 'climate mainstreaming' and 'climate proofing'.

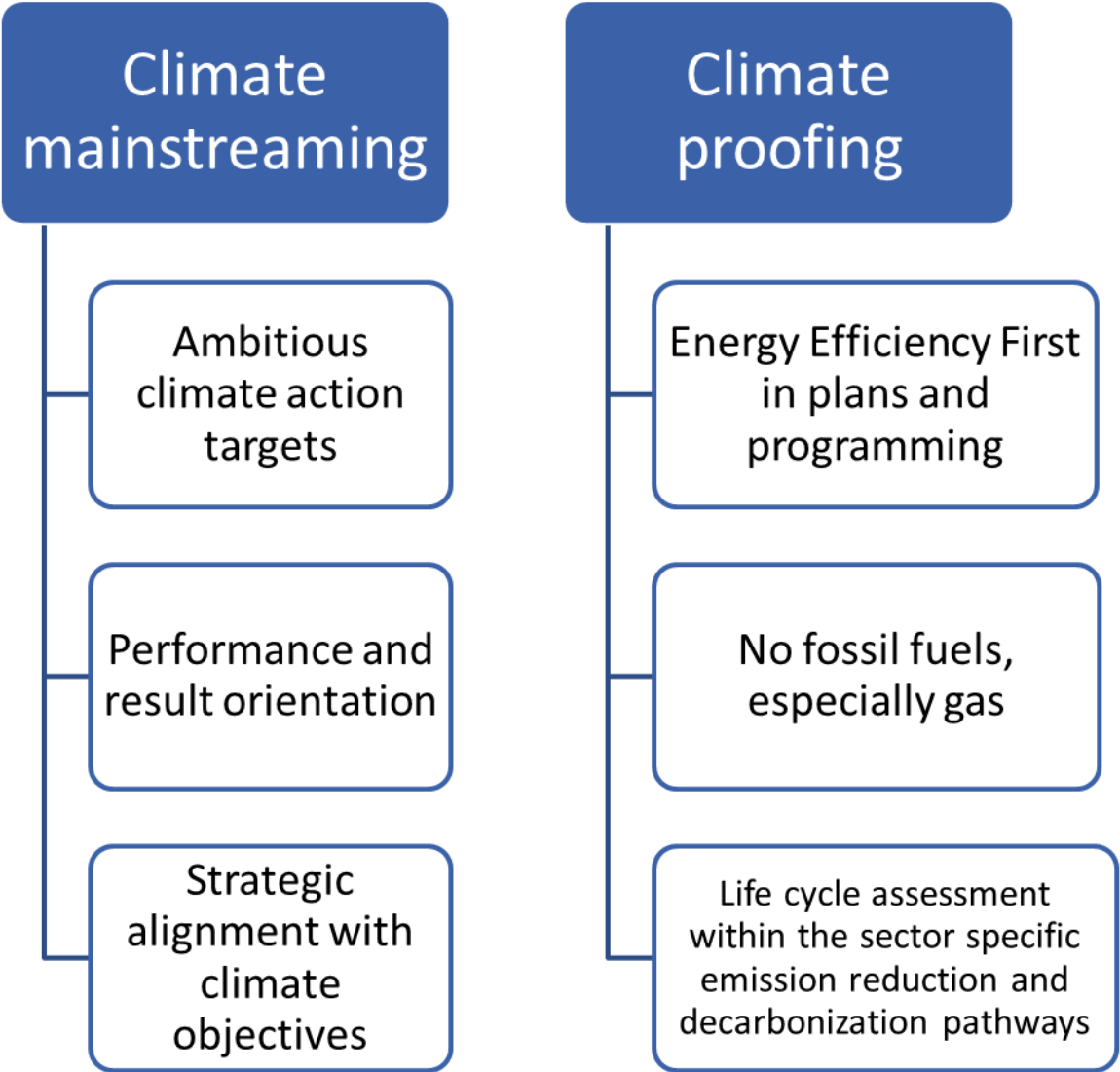


Figure 1: Horizontal integration of climate action in the EU budget

The horizontal integration of climate action in the EU budget needs to be enshrined and operationalized throughout the proposed sector specific legislations, in particular Cohesion Policy's Common Provisions and ERDF/CF regulations, the Connecting Europe Facility, InvestEU and the Common Agricultural Policy:

Climate mainstreaming in the EU budget

- Ensure a climate action target of at least 40% of the EU budget, broken down for the specific spending programmes, see Figure 2: 'Climate mainstreaming scenarios MFF 2021-2027'. Those climate action targets need to be legally binding and be put into effect ex-ante (and not only accounted for ex-post as currently), i.e. climate earmarking needs to be integrated a priori into the fund specific planning and programming processes to ensure uptake of climate measures and to provide certainty to investors on longer term investment patterns.
- Improve performance and result orientation of climate action. Take into account European Court of Auditors recommendations on the climate tracking methodology ('Rio Markers') to avoid greenwashing and overestimation, in order to ensure genuine climate action: differentiate between mitigation and adaptation, and the different sectors. Ameliorate the performance framework by introducing new output and result indicators which show the level of ambition and put respective results into the perspective of sectoral structural reform requirements, national needs and opportunities.
- Deploy EU funding within sectoral zero-emission transformation pathways and strategies (energy, transport, housing, agriculture, resource use). Align spending plans and projects to climate objectives corresponding to the Paris Agreement and integrate EU funding into national and cross-border energy infrastructure and mobility. Bind EU funding to the development and implementation of 'Paris compliant' National Energy and Climate Plans (NECPs) under the EU Energy Union Governance framework.

Climate proofing of the EU budget

- Undertake Energy Efficiency First assessments in planning and preparation of projects and programmes about how much energy could be saved - before taking investment decisions on infrastructure, similar to provisions in the Regulation on the Governance of the Energy Union.
- Exclude fossil fuels from eligibility, especially gas.
- Apply additional climate impact and projects lifecycle assessment of programmes and planned infrastructure to ensure compliance with the sector specific emission reduction and decarbonization pathways.



Climate mainstreaming scenarios MFF 2021-2027

(EUR million - current prices)				programme amount	variable targets to achieve 30%		variable targets to achieve 40%		Comparison with climate spending 2014-2020	EC proposal			
										%	amount	share in total climate action	legal base
Horizon Europe				94,100	32,935	35%	47,050	50%	24.7% (35% target Horizon 2020)	35%	32,935	10.3%	aspiration
ITER (International Thermonuclear Experimental Reactor)				6,070	6,070	100%				100%	6,070	1.9%	EC estimate
InvestEU Fund				14,725	4,418	30%	8,835	60%	40% (infrastructure window)	30%	4,418	1.4%	aspiration (with 50% target for infrastructure window)
Connecting Europe Facility - Transport				12,830	17,136	70%	10,264	80%	52.6%	60%	14,688	4.6%	aspiration
Connecting Europe Facility - Energy				8,650			8,650	100%					
Connecting Europe Facility - Digital				3,000			600	20%					
European Regional Development Fund				226,308	113,154	50%	158,416	70%	18.7%	30%	67,892	21.3%	thematic concentration
Cohesion Fund				46,692	25,681	55%	28,015	60%	28.2%	37%	17,276	5.4%	EC estimate
European Agricultural Guarantee Fund (EAGF)				286,195	114,478	40%	114,478	40%	14.8%	40%	146,002	45.7%	aspiration (with 30% for RD)
European Agricultural Fund for Rural Development (EAFRD)				78,811	39,406	50%	63,049	80%	59.7%				
European Maritime and Fisheries Fund				6,140	2,456	40%	2,456	40%	15.8%	30%	1,842	0.6%	aspiration
Programme for Environment and Climate Action (LIFE)				5,450	3,325	61%	3,270	60%	46.7%	61%	3,325	1.0%	aspiration
Neighbourhood, Development, Int. Cooperation Instrument				89,500	22,375	25%	35,800	40%	18.5%	25%	22,375	7.0%	aspiration
Pre-Accession Assistance				14,500	2,320	16%	5,800	40%	13.6%	16%	2,320	0.7%	aspiration
Climate action 25%:				319,852	383,752	30%	486,683	40%	19.3%	24.9%	319,143		

Figure 2: Climate mainstreaming scenarios MFF 2021-2027; source: own compilation based on legislative proposals June 2018; cabinet Commissioner Oettinger, Fiche 33 European Commission Services Working Document 23 July 2018; EC draft budget 2019

II. Background: climate change, climate action and the EU budget

Climate change is affecting people's livelihoods already today; collective ambition to limit temperature rise to 1.5°C is the only acceptable target to work towards. To achieve the 1.5°C target the EU will need a very fast phase out of the use of fossil fuels, a steep reduction in all greenhouse gas emissions and to the capacity of forests, wetlands, grasslands, peatlands and others to remove carbon from the atmosphere, through sustainable ecosystem restoration. Research and innovation and the further development of existing and new technologies will play an important role in making the zero-emissions transition happen, but at the same time in order to avoid the most dangerous impacts of climate change, Europe needs to strongly invest in the circular economy as well as in adapting lifestyles to sustainable levels of consumption, in particular in the fields of transport and food consumption. A rapid shift to a 100% renewable energy system in the power, transport and buildings sectors would be needed. This will need increased political support for investments in renewable energy, energy demand reduction and energy savings, energy storage, and electrification. Even more action and innovation would be needed to bring the industrial and agricultural sectors towards near zero emissions. Next to rapid and deep reductions in greenhouse gas emissions, the EU will need to support domestic ecosystem restoration in order to substantially increase the carbon removal capacity of forests, grasslands, wetlands, agricultural lands and peatlands.

To achieve the level of decarbonisation needed to stay below 1.5°C, the EU will need to set clear and higher long-term objectives for emission reductions and for carbon removals, but it will also need to increase action in the short term, including actions to phase out fossil fuels, a revision of the 2030 Paris pledges (Nationally Determined Contributions, NDCs), and a drastic shift in financial flows, particularly from the EU budget, from dirty fossil fuel subsidies to investments in clean alternatives, and to enable a just transition providing maximum support to workers and vulnerable communities.

Through the Paris Agreement, 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 at 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 its policy instruments – including the EU budget – accordingly.

Against this background it is crucial that the next EU budget strengthens the EU's climate objectives and policies, including the achievement of the 2030 climate and energy targets. The money spent and the projects funded must be in line with the objective of paving the way towards a zero-carbon and climate resilient economy. Hence the EU budget should:

- help build a strong domestic market in renewable energy 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 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 agriculture to ensure that farming practices are genuinely contributing to resilient ecosystems and sustainable management of natural resources and to climate action;
- support ambitious sub-national, national and cross-border climate adaptation plans and measures in EU Member States and neighbouring countries;
- strengthen resilience to climate change in partner and developing countries, particularly through increasing climate finance support for adaptation that reaches the most vulnerable communities, sectors and regions suffering 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 and Project Development Assistance (PDA) to communities and vulnerable households and support the Just Transition in regions with particular transformation challenges.

At the same time, the EU budget needs to become 100% climate proof: Firstly that means that EU funds must not be used for projects that, by causing additional GHG emissions, would be at odds with the climate commitments made. Secondly the EU budget, the EU's financial arm critical for the economic development of many sectors (e.g. agriculture, cross-border transport and energy infrastructure) and in particular in the EU's less developed regions, has a great potential to drive the sectoral zero-emission transformations that should be fully exploited.

Preventing climate change and adapting to the inevitable consequences of ongoing global warming has been identified by the European Commission as one of the main priorities for future funding: in its proposals on the long-term EU budget 2021-2027 the European Commission has pledged that at least 25% of the future MFF should serve climate action. This overall climate action target has then been broken down to specific targets for the most relevant programmes and been mentioned in the corresponding legislative proposals.

The current EU budget (2014-2020) already has some important climate-relevant features such as 'climate mainstreaming', the political target to spend 20% of the EU budget on climate action, or the strategic link to the EU 2020 climate and energy framework.

While these features indicate important efforts to integrate climate action across EU spending, the EU budget's full potential to catalyse the zero-emission transformation in Europe remains largely untapped: while these features indicate important efforts to integrate climate action across EU spending, those sectors that are substantially supported by EU funds such as agriculture, transport and housing continue to be major greenhouse gas emitters in Europe. At the same time the share of EU funds going to clean energy and sustainable mobility² are tiny (see below Figure 3). Fossil fuels still receive subsidies from the EU budget while competing priorities and incoherent implementation of climate action are derailing the climate credits of the EU budget.

Overall the current EU budget's full potential to catalyze the zero-carbon transformation in Europe remains largely untapped.

Is the European Commission's new EU budget 2021-2027 proposal changing course, helping to bring the EU in line with the Paris Agreement?

² Member States plan to spend on average a mere 7.6% of all their EU 2014-2020 Cohesion Policy funding on energy efficiency, renewables, electricity distribution, storage and smart grids and low-carbon research and innovation.

Cohesion Policy funding 2014 -2020; planned allocations; 2014 prices; source: own calculation based on 'Categories of Intervention', <https://cohesiondata.ec.europa.eu>

Financial measures for reporting and planning within National Energy and Climate Plans (NECPs) under the Energy Union Governance regulation': EU funds - financial allocations in relation to achieving 20/20/20 EU Climate and Energy targets								
Policies and measures: Financial measures, use of EU funds 2014-2020	3.1.1 GHG emissions and removals (environmental measures)	3.1.2 Promotion of the production and use of energy from renewable sources in electricity, heating and cooling, and transport	3.2 Energy Efficiency	3.3 Energy security (here: financing of gas infrastructure; overlapping with 3.4.2.)	3.4.1 Electricity infrastructure	3.4.2 Energy transmission infrastructure	3.5. Dimension Research, innovation and competitiveness	Share of GHG reduction, renewable energy, energy efficiency, electricity transmission and storage, research and innovation, on total Cohesion Policy spending 2014 -2020
AT	€25,226,771	€0	€80,823,336	€0	€0	€0	€16,550,000	12.5%
BE	€0	€22,131,102	€101,013,583	€0	€0	€0	€13,742,663	6.8%
BG	€62,336,199	€0	€471,486,714	€38,250,000	€0	€0	€14,195,000	7.4%
CY	€0	€0	€44,000,000	€0	€0	€0	€0	6.3%
CZ	€0	€53,439,383	€1,966,794,585	€0	€236,951,838	€0	€102,655,805	10.9%
DE	€123,567,298	€121,513,627	€1,388,224,372	€0	€59,563,084	€0	€232,580,242	10.5%
DK	€0	€0	€41,451,729	€0	€0	€0	€11,469,870	12.8%
EE	€15,319,149	€9,574,468	€154,563,830	€0	€0	€0	€145,175,532	9.2%
ES	€0	€649,661,113	€1,096,458,444	€0	€234,704,874	€0	€0	7.1%
FI	€0	€0	€74,360,164	€0	€2,803,557	€0	€78,778,152	12.0%
FR	€12,898,125	€423,191,079	€765,099,369	€0	€29,780,497	€0	€118,447,152	9.1%
GR	€64,629,826	€93,563,498	€461,762,523	€120,135,697	€211,310,455	€0	€68,788,213	5.9%
HR	€0	€95,000,000	€321,810,805	€0	€20,000,000	€0	€40,000,000	5.6%
HU	€0	€875,953,631	€1,159,078,520	€0	€0	€0	€0	9.4%
IE	€0	€0	€84,500,000	€0	€0	€0	€0	8.3%
IT	€17,245,144	€199,953,031	€1,404,094,926	€0	€443,609,865	€0	€0	6.5%
LT	€0	€329,868,111	€465,941,999	€84,195,304	€90,275,436	€0	€0	13.2%
LU	€0	€1,805,376	€3,610,915	€0	€0	€0	€360,192	14.6%
LV	€0	€26,597,247	€311,806,660	€17,727,893	€23,629,567	€0	€0	8.2%
MT	€11,900,000	€31,127,364	€14,995,116	€0	€0	€0	€0	8.2%
NL	€0	€12,532,607	€56,658,971	€0	€1,881,392	€0	€50,264,470	12.0%
PL	€13,849,190	€938,928,986	€2,501,919,373	€620,000,000	€781,261,716	€0	€444,539,462	6.1%
PT	€17,000,000	€159,000,000	€816,576,967	€3,000,000	€123,000,000	€0	€223,836,645	6.3%
RO	€0	€94,787,234	€1,251,170,213	€46,750,000	€66,372,340	€0	€15,000,000	6.3%
SE	€1,450,102	€5,120,358	€86,462,372	€0	€0	€0	€78,524,726	9.7%
SI	€0	€12,000,000	€267,953,527	€0	€19,897,800	€0	€68,157,411	12.2%
SK	€0	€169,000,000	€698,775,034	€0	€0	€0	€8,358,341	6.4%
TC	€88,332,367	€139,120,611	€191,953,736	€150,000	€33,873,887	€0	€159,123,785	6.6%
UK	€0	€421,143,499	€401,574,270	€0	€86,936,977	€0	€221,251,265	10.3%
TOTAL	€453,754,171	€4,885,012,325	€16,684,922,052	€930,208,894	€2,465,853,285	€2,111,798,926	€2,111,798,926	7.6%

Figure 3: Cohesion Policy funding 2014 -2020; planned allocations; 2014 prices; source: own calculation based on 'Categories of Intervention', <https://cohesiondata.ec.europa.eu>

III. Climate mainstreaming in the EU budget

Ensuring an ambitious quantitative target. According to the European Commission's proposal climate action should be mainstreamed across all EU programmes, with a target of 25% of all expenditure contributing to climate objectives. This is a 5% increase from the current target. The climate effort would span policies on regional integration, energy, transport, research and innovation, agriculture as well as development aid, summing up to €320bn in total, see Figure 2 above.

However, whereas the EU is about to meet its current 20% climate action target narrowly (19.3%³ for 2014-2020), the climate mainstreaming, respectively achieving the climate action target - according to the EC's proposals - remains aspirational, as a standard provision in many of the legislative proposals suggests:

“[...] the Commission proposal for the 2021-2027 Multiannual Financial Framework set a more ambitious goal for climate mainstreaming across all EU programmes, with an overall target of 25% of EU expenditure contributing to climate objectives. A major contribution towards this target **is expected** to be provided by CEF, with a target of 60% of its envelope contributing to climate objectives. The contribution of this programme to the achievement of this overall target will be tracked through an EU climate marker system at an appropriate level of disaggregation, including the use of more precise methodologies where these are available. The Commission will continue to present the information annually in terms of commitment appropriations in the context of the annual draft budget.” (Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the Connecting Europe Facility)

Climate related spending mostly remains optional and not legally binding. Climate action allocations have been legally anchored in accordant provision, i.e. 'earmarked', only on a few occasions: the 'Policy Objective 2' ('greener low carbon Europe')⁴ under the European Regional Development Fund, a share of the Rural Development Fund and parts of the InvestEU Infrastructure Investment Window. All other climate action commitments are based on European Commission projections for future implementation.

That means that most of the climate action allocations wouldn't be part of the planning process of the according programme, but turned into an accountancy exercise ex-post within the annual budgeting procedure.

Such an approach hampers investors' certainty and denies planning reliability to market actors.

Instead, climate action allocations should become an integral part of the according programming and planning process, i.e. a certain amount dedicated to climate action needs be ensured at the starting point when developing Operational Programmes under Cohesion Policy or the CAP Strategic Plans, when setting up PCI lists for financing from the Connecting Europe Facility, when entering the Horizon Europe Strategic Planning process, when building up the InvestEU project pipeline or when developing the national programmes under the External Action programmes.

At the same time the European Commission continues with a rather broad concept of what is labelled as climate action. Whereas a comprehensive concept of climate action and the inclusion of a wide array of direct and indirect climate and environmental measures into climate

³ STATEMENT OF ESTIMATES OF THE EUROPEAN COMMISSION for the financial year 2019, <http://ec.europa.eu/budget/library/biblio/documents/2019/SoE2019%20with%20covers.pdf>

⁴ 'A greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management'

mainstreaming is welcome, like in the Cohesion Policy Objective 2 ‘green, low-carbon Europe’, the overall allocated financial amount for eligible measures needs to expand accordingly. This need for higher and targeted climate action allocations becomes evident when looking at 2014-2020 Cohesion Policy Operational Programmes (See Figure 3 above). Member States plan to spend on average a mere 7.6% of all their EU 2014-2020 Cohesion Policy funding on energy efficiency, renewables, electricity distribution, storage and smart grids and low-carbon research and innovation. Thus, the ‘hardware’ of the clean energy transition remains financially neglected despite the current 20% climate action target.

RECOMMENDATION 1: In order to ensure a threshold of 40% climate action of the overall EU budget, binding earmarking for climate action throughout the sector specific legislation should be established (see Figure 2) and become an integral part of the programmes’ planning and preparation processes.

Improving climate action tracking and reporting. In addition to ensuring the minimum quantitative targets it is important to understand the transformative impact of the various climate action investments throughout the different sectors. For instance, currently large parts of the funding to European farmers, both direct payments and under rural development programmes, are labelled ‘climate action’. However, the extent to which the activities have a positive environmental and additional climate impact is questionable and should be proven more convincingly. Another example: within Cohesion Policy the current approach to assessing levels of climate action funding focuses on identifying planned expenditure via the so called ‘Rio Marker’ without differentiating between climate change mitigation and adaptation or assigning it to e.g. the energy or transport sector.

The European Court of Auditors⁵ (ECA) recommends to set up a comprehensive reporting framework and an assessment of climate change needs. Overestimates (in agriculture and research) should be corrected, and that actual spending and its results should be monitored. Finally, the ECA recommends to explore all potential opportunities to ensure a further, real shift towards climate action in the EU budget.

Whereas the European Commission’s forecast hints at achieving the 25% climate action objective for the EU budget2021-2027 (see Figure 2), generally speaking, the different climate tracking methodologies scattered throughout the various files are inconsistent and might lead to an inaccurate assessment of the volume and quality of climate action funding:

- Cohesion Policy (via the Common Provisions Regulation⁶) applies a rather elaborated climate tracking system: the ERDF would deliver 30% climate action, the Cohesion Fund 37%. In order to account for that, all possible and eligible measures, the different types of expenditures, are clustered in a system of 143 so called ‘categories of intervention’. Each type of intervention has a Rio Marker value. The Rio Markers distinguish between

⁵ <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=39853>, http://ec.europa.eu/budget/mff/lib/COM-2016-603/COM-2016-603_en.pdf

⁶ The Common Provision Regulation (COM(2018) 375 final) covers the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument.

expenditure that is (a) principally targeted (b) significantly targeted or (c) not targeted at climate objectives. Depending on the degree of targeting, fixed percentages of the overall (planned) expenditure are considered to be relevant for the according intervention category. The EU uses 0%, 40% and 100%, respectively for non-targeted, significantly-targeted and principally-targeted expenditure. However, some of the attributed Rio Marker values are inconsistent with climate action in line with the Paris Agreement, as they promote the use of fossil fuels: the 100% Rio Marker values for 'High efficiency co-generation, district heating and cooling' in practice opens the door for life-time extension of fossil fuel-based installations; 100% climate action for 'Alternative fuels infrastructure' in the transport sector which would promote the use of fossil gas in the transport sector, thus hindering the transition towards zero emission mobility. In addition the 100% Rio Marker for new railways is deviating from the investment focus on the transition towards zero-emission mobility.

- The Connecting Europe Facility (CEF) proposals include support to energy and transport projects of common interest (PCIs), including fossil gas infrastructure projects and the use of Liquefied Natural Gas (LNG) and is expected to contribute to the climate objective with 60% of its funding. Climate action tracking is described in the recitals of the proposed regulation: in the context of transport, gas projects are attributed a 100% climate action value. For other gas infrastructure in the context of what is labelled 'renewable gas' a 40% Rio Marker value is proposed. Whereas fossil fuel subsidies from the EU budget should be excluded per se - as partially done in Cohesion Policy - assigning a climate action value to high-carbon project is misleading.
- The InvestEU is the proposed successor to the European Fund for Strategic Investment (EFSI) or 'Juncker Plan' and is intended to mobilise investment finance using guarantees from the EU budget, with 30% of the overall financial envelope of the InvestEU Programme expected to contribute to climate objectives, with implementing partners aiming for at least 50% of investments under the sustainable infrastructure policy window contribute to meeting the Union objectives on climate and environment. Here, in turn, climate action is put into the context of the EU's 'Sustainable Finance Initiative' and should be tracked through an EU climate tracking system developed by the Commission in cooperation with implementing partners and using the criteria established by the 'Regulation on the establishment of a framework to facilitate sustainable investment' for determining whether an economic activity is environmentally sustainable.
- According to the European Commission's proposal (see Figure 2) climate action within the Common Agricultural Policy (CAP) 2021-2027 would make up 45.7%, almost half, of all EU budget climate action. As climate action would be accounted 40% of the expenditure under the 'Basic Income Support for Sustainability' and under the 'Complementary Income Support', 100% of expenditure under eco-schemes, 100% of expenditure for the interventions that count towards the minimum 30% for Agri-Environment-Climate Measures (AECMs) and 40% of expenditure for natural or other area with specific constraints. This means that 40% of direct payments to farmers, based on their assumed compliance with 'enhanced conditionality', would count as climate action. This approach neglects the European Court of Auditors recommendations regarding the need for result-oriented climate action funding.

- The research fund Horizon Europe is expected to contribute 35% of its overall financial envelope to climate objectives. Without specifying what would count as climate action, relevant actions would be identified during the Specific Programme's preparation and implementation, and reassessed in the context of the relevant evaluations and review processes.
- In the mid-term review⁷ of the current Development Cooperation Instrument (DCI), it was found that outside of the targeted support under the Global Public Goods and Challenges Programme (GPGC), the prioritisation, funding and effective integration of climate and environment across Geographic Programmes were very limited. Reporting climate financing within the international context (e.g. commitments under the UNFCCC) is not consistent or adequately coordinated between EU Member States and institutions; governments and the European Commission have a number of variations on how they use the Rio Marker to report. This trend makes it difficult to assess the quality of support and the extent to which it is delivering international climate objectives. A report by the European Court of Auditors⁸ recommended that the European Commission and Member States should work to improve transparency and accountability standards of climate financing towards fulfilling international commitments. However, little effort has been made to address the way in which climate finance is reported. For example, a recent report⁹ on international climate finance by Act Alliance found that a substantial amount of EU climate finance is delivered as loans. In 2016, 41% of climate finance from EU institutions was provided as loans, while only 30% of the total climate finance from EU institutions and EU member states went to adaptation.

RECOMMENDATION 2: The European Commission should improve its 'climate action tracking' methodology to get a realistic picture about the volume and actual impact of climate action spending of the EU budget. It needs to distinguish between funding for mitigation and adaptation measures and specify the sectors concerned. There needs to be better scrutiny about the results achieved to rule out greenwashing and overestimations, including the EU budget's financial instruments. For this purpose, one comprehensive set of categories of intervention (based on the Common Provisions Regulation) should be established for all expenditure categories including all possible types of intervention from relevant programmes. It should be centralised in monitoring and reporting.

Enhancing the performance framework with firm result indicators. The Commission has also emphasised the importance of the EU budget's performance and suggests that the EU budget should set clearer objectives and focus on a smaller number of performance indicators. This would release authorities from what is deemed as administrative burden, but still 'simplification' should go hand in hand with a strong result orientation.

In particular in Cohesion Policy and in the Common Agricultural Policy (CAP) the Commission proposes performance frameworks which are composed of two main elements. First the 'enabling conditions' (Cohesion Policy) and 'requirements and standards' (CAP) which are either

⁷ https://ec.europa.eu/europeaid/sites/devco/files/dci-final-report-vol-i-main-report_en.pdf

⁸ https://www.eca.europa.eu/Lists/ECADocuments/SR13_17/SR13_17_EN.pdf

⁹ <http://actalliance.eu/news-post/new-study-finds-that-the-eu-must-revise-its-climate-finance-policies/>

linked to compliance with existing EU legislation and strategies or other international commitments to ensure a favourable legal and administrative environment for planning, investments and payments in the respective area. Secondly a system of output, impact and result indicators is established which builds the basis for the entire planning, monitoring and reporting processes. It sets the milestones and targets values for performance reviews which in consequence can entail sanctions or financial incentives (CAP).

Thus all 'deliverables', targets and the level of ambition in a certain area would be expressed and its achievement measured against those indicators. However, indicators proposed by the European Commission for climate are incomplete and sometimes simplistic: without putting the respective target value into perspective of what is technically feasible and financially opportune some indicators remain a simple counting of beneficiaries. For example one ERDF output indicator 'RCO 18 - Households supported to improve energy performance of their dwelling' is measured against the result indicator – 'RCR 27 - Households with improved energy performance of their dwellings'. This indicator pair indicates the total number of households benefitting from the measure, yet it doesn't display the level of improvement of the energy performance - which could be high, or marginal. This implies that targets potentially could be set low without the performance framework being able to assess the level of ambition of the respective measure.

The below proposed additional conditions and indicators should help to improve the Cohesion Policy performance framework regarding climate action:

- All EU Member States are signatories to the Paris Agreement. Thus Cohesion Policy 'Horizontal enabling conditions' should include the requirement for Member States to fulfil the obligations stemming from the Paris Agreement objectives.
- For Cohesion Policy objective 2 'greener, low carbon Europe' the thematic enabling condition for climate and energy should be enhanced:
 - Energy efficiency conditionality should clearly refer to required energy savings under Article 7 of the Energy Efficiency Directive (2012/27/EU), including all elements required by Annex II of the Regulation on Governance of the Energy Union ('Member States shall notify to the Commission their proposed detailed methodology pursuant to Annex V(5) to Directive 2012/27/EU for the operation of the energy efficiency obligation schemes and alternative policy measures referred to in Articles 7a and 7b and Article 20(6) of that Directive.');
 - The condition on the governance of the energy sector should ensure that individual and cumulative National Energy and Climate Plans comply with the Paris Agreement objective of limiting global warming to 1.5°C.

The set of respective indicators on energy efficiency and renewable energy needs to be expanded:

- For energy efficiency:
 - The percentage of annual energy savings for the entire building stock (compared to a baseline) in line with the objective of reaching a high-efficient and decarbonised building stock as included in the national long term renovation

- strategy to support renovation of the national stock of residential and non-residential buildings;
- Households with improved energy performance of their dwellings, reaching at least 60% energy savings compared to pre-renovation levels (EC definition of deep renovation);
- Households with improved energy performance of their dwellings, reaching Nearly Zero Energy Buildings (nZEB) standard level after renovation;
- Buildings with improved energy classification (of which: residential, private non-residential, public non-residential), achieving an EPC of B after renovation;
- Number of energy poor/vulnerable consumers supported to improve the energy performance of their dwelling.
- On renewable energy:
 - Total final renewable energy consumption and consumption per sector (heating and cooling, transport, electricity);
 - Share of total renewable energy produced;
 - Reduction of annual import of non-renewable energy.

Indicators in the agricultural sector play a crucial role for building the CAP Strategic Plans. The intended focus and delivery on environment- and climate specific objectives should be facilitated by a set of output, result and impact indicators. The proposed provision (Article 7 of ‘CAP Strategic Plans’) explicitly links to the EU’s climate and energy legislation, e.g. under the Energy Union Governance. Hence the CAP performance framework needs to enable the sector’s delivery on EU’s climate and energy targets. That means, for both direct payments and the Rural Development Fund, that foreseen targets on ‘Reducing GHG emissions from agriculture’ need to be built on sectoral decarbonisation pathways which are in line with the Paris Agreement objectives. Indicators on ‘Carbon storage’ should as well set benchmarks for increased capacity to remove carbon from the atmosphere.

RECOMMENDATION 3: A performance based approach built on conditions and indicators should ensure the achievement of actual climate and clean energy targets which form part of sectoral decarbonisation pathways. Related performance indicators need to be introduced accordingly which show the level of ambition and put respective results into perspective of sectoral structural reform requirements, national needs and opportunities.

Align EU funds spending plans and projects with climate action strategies. According to the European Commission the EU budget is delivering ‘EU added value’ through financing its various policies. And indeed, the various proposals either include references to EU’s climate and energy policies, or they contain provisions which directly integrate both policies:

- The Connecting Europe Facility should provide its financial support in line with EU and National Energy and Climate Plans (NECPs);

- The development of CAP Strategic Plans should take into account national plans emanating from the Governance of the Energy Union legislation;
- Proposals for Cohesion Policy show the highest level of institutionalised integration between EU funding and Energy Union Governance by combining both planning and implementation processes:

Whereas Cohesion Policy should be further aligned to the European Semester and related structural reforms as laid down in National Reform Programmes, the European Commission acknowledges the transformational potential of Cohesion Policy funding beyond macro-economic considerations. In its proposal for Cohesion Policy funding under the EU budget 2021-2027, the European Commission aims to integrate both the 2030 Governance process with EU Cohesion Policy funding: the country specific recommendations on NECPs put forward by the European Commission during 2019 should as well inform the development of EU funds' spending plans (Partnership Agreements and Operational Programmes); see Figure 4 below which illustrates the conceptual and timewise interconnection of EU funds and NECP planning and implementation.

Within their NECP framework in turn Member States have to report on their use of future EU funds to achieve 7 different objectives:

1. GHG emissions and removals;
2. promotion of the production and use of energy from renewable sources in electricity, heating and cooling, and transport;
3. energy efficiency;
4. energy security;
5. energy transmission infrastructure;
6. electricity infrastructure;
7. research, innovation and competitiveness.

Linking the Energy Union governance process, i.e. NECP development and implementation, with EU funds planning and investments is one way for the Commission to address any 'ambition gap' in achieving EU's 2030 climate and energy targets.

Later on in 2023 when the Commission is assessing implementation and progress on NECPs, the recommendations stemming from this review will as well have consequences for EU Funds: during the mid-term review of EU funds 2023-2024 Member States might be requested to change their EU funds spending plans for the remaining years in order to address potential 'implementation gaps' by allocating more EU funds to areas where more action to achieve the specific target is required.¹⁰

Practically the NECP negotiations will run in parallel with the planning of EU funds post-2020, the so called 'programming' process. This provides for an opportunity to increase the level of climate ambition as expressed in NECPs by allocating sufficient and additional amounts of EU funds to achieve higher climate and energy objectives.

¹⁰ For a comprehensive assessment of how to maximise the benefits of EU funding for the achievement of EU climate objectives see https://www.ecologic.eu/sites/files/publication/2018/2145-mff_necps_connection.pdf

Such a systematic integrated approach of national planning and EU funds use should be applied to all sectors and include all relevant EU budget sources, in particular when it comes to electricity interconnections, decarbonisation of the transport sector (both focus areas for the Connecting Europe Facility and the selection of Project of Common Interests). Eligibility criteria for projects applying under the InvestEU should demonstrate their delivery on national climate and energy plans as well.

RECOMMENDATION 4: In order to ensure alignment with the EU's long-term decarbonisation goals Member States need to develop National Energy and Climate Plans to 2030 which are in line with the requirements of the Paris Agreement. Centrally managed funds and those under shared management relevant for achieving 2030 climate and energy targets (Cohesion Policy funding) need to be integrated into the development and implementation of NECPs. In setting priorities, objectives and conditions for EU funding post-2020, Member States and the European Commission need to ensure that EU funding contributes to increasing national climate and energy objectives and increasing targets within the NECPs.

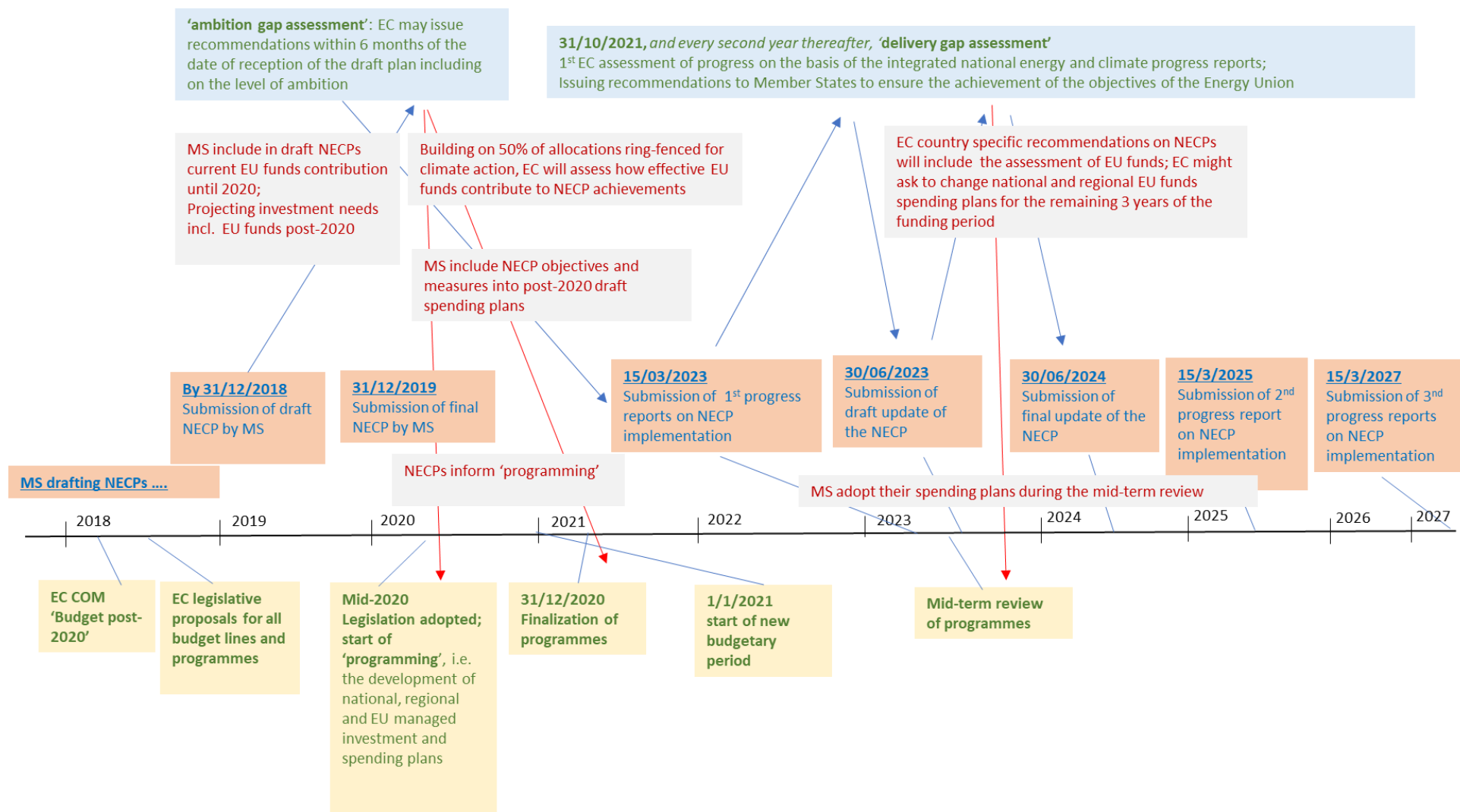


Figure 4: EU Cohesion Policy addressing ambition and delivery gap within the Energy Union governance

IV. Climate proofing of the EU budget

Whereas an increased quantitative climate action target, an appropriate performance framework, and the systematic integration of EU budget resources into national plans and policies are necessary to ensure higher climate ambition, the Paris Agreement requires all financial flows to be made consistent with zero carbon and clean energy development. This requires the EU budget not only to meet its more ambitious climate specific spending target, but also that the whole EU budget has to be 100% climate proof. That means at first that EU funds must not be used for projects that, by driving additional GHG emissions, would be at odds with the climate commitments made.

Deficits of proposed climate proofing. The European Commission itself uses the concept of climate proofing already. In the context of infrastructure investments the European Commission's proposals emphasise that only 'sustainable infrastructure' would receive EU funding. Cohesion Policy would be delivering on the transition to the low carbon economy and be in 'alignment with sustainable development'. 'InvestEU' would include a 'sustainability proofing' of investment which should help orienting capital flows towards sustainable investment.

However, at this point the EU budget proposals lack distinct definition and consistent operationalisation of what is 'sustainable' and 'climate friendly'. Various diverging approaches toward climate proofing are being proposed:

- In Cohesion Policy (under the Common Provisions regulation, thus including the Maritime and Fisheries Fund) climate proofing is reduced to a process to ensure that infrastructure is resilient to the adverse impacts of the climate.
- The CEF proposals solely state that projects supported should be subject to climate proofing in accordance with guidance that should be developed by the Commission.
- A more advanced approach is laid down in the InvestEU programme: Financing and investment operations under the sustainable infrastructure window should be subject to climate, environmental and social sustainability proofing with a view to minimise detrimental impacts and maximise benefits for the climate, environment and social dimension. The European Commission's guidelines (to be developed) would tell project promoters which information is required for this purpose. Further on some elements of climate proofing are defined: it contains checks against the risk of climate change for built infrastructure, similar to the approach in Cohesion Policy. In addition it refers to two approaches already used by the European Investment Bank (EIB), namely the inclusion of a shadow carbon price and the relative GHG emission reduction into the Cost-Benefit-Analysis. Finally, those European Commission guidelines should as well enable natural capital accounting on air, water, land and biodiversity.
- The Neighbourhood, Development and International Cooperation Instrument does not make any reference to climate proofing its financing for programmes and projects with neighbourhood and developing countries. The European Fund for Sustainable Development+ (EFSD+) also overlooks a reference to climate proof its funding, despite increasing the level of public financing that will go to the Fund.

- In its spending review the European Commission declares that more than 500 major projects in the period 2014-2020 are subject to climate proofing: however, while the cost-benefit analysis takes into account greenhouse gas emissions to a limited extent, the current approach falls short of taking a long-term perspective on GHG emission reduction requirements and alternative options. Current environmental assessment tools, in particular the Strategic Environmental Impact Assessment tools (SEA) for programmes or Environmental Impact Assessments (EIA) for larger projects are not appropriate to cover a comprehensive climate impact assessment.

Fossil Fuels in the EU budget. The exclusion of fossil fuels from receiving EU funding would be one crucial element of climate proofing. However, the European Commission at only one point in its entire EU budget proposal declares fossil fuels to be (partly) non-eligible: the proposals for the Cohesion Policy ERDF regulation (Article 6) specifically determines the exclusion of investments related to production, processing, distribution, storage or combustion of fossil fuels. But, exempted from this list, i.e. still eligible, are projects in the context of so-called 'clean vehicles' which includes vehicles powered by Liquefied Natural Gas (LNG). Thus ERDF could be used to support fossil gas projects in the transport sector, hindering the transition to zero emissions mobility.

Other funds do not explicitly exclude fossil fuels, but might continue to support the financing of fossil fuel infrastructure:

- The CEF proposal continues support of energy Projects of Common Interest (PCI). The current list of Energy Projects of Common Interest¹¹ contains more than 100 gas infrastructure projects. Future eligibility of PCIs remains as it is now, so further gas development is not excluded. Transport PCIs under the CEF might be chosen to finance 'alternative fuels'. The current list of transport projects of common interest includes several projects supporting the use of Liquefied Natural Gas (LNG), a high-carbon fossil fuel. Another issue with CEF gas financing lays in its incoherent climate action tracking methodology: according to the proposal gas projects count as climate finance with a 40% value - 'if enabling increased use of renewable hydrogen or bio-methane'. However upgrades to gas infrastructure to enable the transport of hydrogen or bio-methane do not guarantee that the infrastructure will carry such fuels, apart from questions of their sustainability. Such funding may simply support the renewal of fossil gas infrastructure while undermining the concept of climate mainstreaming.
- InvestEU, the proposed successor to the European Fund for Strategic Investment (EFSI) or 'Juncker Plan', is intended to mobilise investment finance using guarantees from EU budget funds. The current EFSI in just its first two years spent €1.2 billion on eight gas distribution projects¹². The current legislative proposals include a 'sustainable infrastructure policy window' which includes support for energy projects. While support for renewable projects is explicitly envisaged there is no exclusion of fossil fuel projects. Carbon-capture and -storage infrastructure (CCS) though is an eligible area for financing

¹¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32018R0540&from=EN>

¹² <http://www.caneurope.org/publications/reports-and-briefings/1490-report-phase-out-2020-monitoring-europe-s-fossil-fuel-subsidies>

and investment operations. However CCS is not a mature technology, and supporting CCS diverts public investments and political attention away from renewable energy and energy efficiency. It risks carbon lock-in of energy systems and delays the necessary transition away from fossil fuels.

- As mentioned above, the proposal for the EU Cohesion Fund and ERDF does not propose to fund fossil fuel projects, and specifically includes an exclusion of investment related to production, processing, distribution, storage or combustion of fossil fuels. However, exempted from this list are investments for 'clean vehicles', respectively 'alternative fuels' which includes vehicles powered by LNG. Thus EU regional development funds still could be used to support fossil gas projects.
- The newly proposed research fund Horizon Europe is also a potential source of fossil fuel financing. The total proposed budget for Horizon Europe is €97.6 billion and includes €15 billion for a 'Climate, Energy and Mobility' cluster. Though this cluster includes the objective of 'making the energy and transport sectors more climate and environment-friendly' there is no prohibition of support to fossil fuel projects in this cluster or elsewhere. Carbon Capture and Storage (CCS) technology are declared eligible for research funding.

RECOMMENDATION 5: In order to implement a coherent approach towards climate action and to ensure all EU budget funding does not hamper the zero-emissions transition, common provisions on climate proofing should be introduced into all legislation and later on elaborated by the announced European Commission guidelines on climate proofing. This should contain the following three elements:

1. In front of any infrastructure investment or programme and project planning the 'Energy Efficiency first' assessments should be conducted about how much energy could be saved before taking investment decisions on infrastructure. The Energy Union Governance Regulation already has included such a provision. This could be the blueprint for all other infrastructure investment funds:

'(39bis) Member States should use the 'energy efficiency first' principle, which means to consider, before taking energy planning, policy and investment decisions, whether cost-efficient, technically, economically and environmentally sound alternative energy efficiency measures could replace in whole or in part the envisaged planning, policy and investment measures, whilst still achieving the objectives of the respective decisions []. This includes notably the treatment of energy efficiency as a crucial element and a key consideration in future investment decisions on energy infrastructure in the Union. Such cost-efficient alternatives [] include measures to make energy demand and energy supply more efficient, in particular by means of cost-effective energy end-use savings, demand-side response initiatives and more efficient conversion, transmission and distribution of energy. Member States should also encourage the spread of this principle in regional and local government, as well as in the private sector.'

2. Any financing of fossil fuels and carbon intensive projects needs to be excluded from EU funding. For that to happen each legislation needs to set out clear exclusion criteria similar to the corresponding provision in the proposed ERDF regulation (Art. 6). Alternatively, Art. 12 of the draft 'regulation on the establishment of a framework to

facilitate sustainable investments'¹³ (Sustainable Finance taxonomy) potentially provides for an even more comprehensive exclusion list. In that sense 'activities leading to significant greenhouse gas emissions' would be excluded from EU funding. The assessment whether GHG emissions are 'significant' need to be put into the context of sectoral decarbonisation and zero-emission pathways in line with the Paris Agreement objectives.

3. Current climate impact assessment tools on programme level (SEA) or project level (EIA), including cost-benefit analyses, carbon footprint accounting or carbon pricing do not give a comprehensive picture of long-term impacts on the climate. They should be complemented by a new Climate Impact Assessment (CIA) instrument for the EU budget. Every EU budget line should be subject to regular monitoring and reporting on how it is contributing to the EU's decarbonization and clean energy goals, including an ex-post assessment of real emission reductions achieved. Any calculatory climate impact assessment within project development has to go beyond carbon-priced cost-benefit analysis in the proofing process by including an investments' life cycle assessment within the sector specific emission reduction and decarbonisation pathway compatible with the 1.5°C objective of the Paris Agreement. It has to take into account the risk of technological lock-in and asset-stranding in relation to mitigation and needs to include improved GHG emission accounting systems that are based on sectoral carbon budgets. Such a climate compatibility check would lead to directing investments towards the most sustainable options and would avoid investments that may have a negative climate impact as it would take a long-term perspective wherein 'life-cycle' costs of alternative options for investment are compared.

¹³

COM(2018)353.

V. Conclusions

The EU urgently needs to raise its climate ambition to be in line with Paris Agreement objective of limiting global warming to 1.5°C.

The European Commission's proposals on the EU budget 2021-2027 and respective programmes signal a higher level of ambition on climate action. Both by increasing the climate action target from 20% to 25%, and as well when describing objectives and priority measures for individual programmes.

However, there is a clear lesson to learn from the current funding period: a quantitative target without ex-ante commitments, quality control or a solid tracking and monitoring methodology risks losing its climate credentials. Conspicuously, the Commission does not explicitly ban from its funding projects that pose negative environmental and climate impacts.

The upcoming negotiations on sector and programme specific legislations need to make up for those deficits by amending and improving climate mainstreaming and climate proofing concepts to ensure the EU budget will genuinely server higher climate ambition in the EU and the world.

-ENDS-

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