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SECTORAL LEGISLATION IN THE POST-2020 EU BUDGET

ENSURING EFFECTIVE CLIMATE SPENDING

**LISA FISCHER, JONATHAN GAVENTA, ELISA GIANNELLI, PEDRO
GUERTLER, TOM JESS, LÉA PILSNER**

Following the release of the **post-2020 Multi-Annual Financial Framework** (MFF) proposal in early May, the European Commission recently published a **series of sectoral legislation** detailing how EU money will be spent within each policy heading. These legislative proposals are key for defining how climate and low carbon transition objectives will play out throughout a variety of policy fields. This briefing sets out policy-specific analysis to show in which sectors the commitment to decarbonising the European economy and society has been effectively translated and where improvements still need to be made in the upcoming negotiations.

It will look more in depth into four proposals and our verdict is summarized below:

1. European Regional Development Fund & Cohesion Fund

The proposal shows a good overall prioritisation of low carbon transition in regional development, notably by introducing an almost comprehensive fossil fuel exclusion, providing clear support for energy efficiency projects and bringing in climate as a condition for the allocation and disbursement of funds. Some improvements are however still needed on the climate proofing methodology and climate mainstreaming as well as providing more actionable support to a just transition.

2. Connecting Europe Facility

Some significant progress has been made with the inclusion of 10% dedicated funding for cross-border renewable energy projects and the assessment of investments for their climate resilience as well as cybersecurity investments now being counted as contributing to security of supply. Importantly however, the proposal still falls short of excluding fossil fuel infrastructure from receiving CEF funding. This will fail to send investors the clear signal needed to spur on the low carbon transition as a number of



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loopholes still allow for significant investments to be directed towards fossil fuel infrastructure. Further than that, it is clear that even though the CEF's budget doubled, its political priorities remain unchanged and has not been updated to reflect Europe's commitment to the Paris Agreement.

3. InvestEU

As things stand, InvestEU is not yet fit to act as a catalyst for investments towards Europe's low carbon transition. As with the CEF proposal, the legislation does not rule out fossil fuel investments and climate proofing - whilst introduced - remains limited to projects supported in only one of the four investment windows of the fund. The picture is more mixed when it comes to the ringfencing of funds for climate action and the support to energy efficiency projects, which have yet to be clearly prioritised. These changes, if harnessed, hold the potential to driving investments towards key areas for Europe's transition to a green economy.

4. Horizon Europe

Only incremental improvements have been suggested on the programme's climate side, which do not sufficiently harness the potential of EU research and innovation to achieve transformational change for climate change. Horizon Europe's contribution to climate mainstreaming remains constant and only a small increase in funding for research in climate and energy was achieved. There are however positive signs of a more bottom-up approach to defining an innovation and research agenda with greater civil society involvement. However, a better definition of this process is still required to make programming priorities relevant to societal needs.



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1. The EU's long-term budget: what is at stake for climate and energy?

On May 2nd, the European Commission unveiled the proposal for the next European MFF for the period 2021-2027, proposing a €1.279 trillion budget. E3G reacted to this proposal in a **blog** available on our website. This paper analyses each of the proposed pieces of sectoral legislation for their own contribution – or lack thereof – to achieving a low carbon transition. It also looks closely at a number of wider **cross-cutting issues** to check for consistency and credibility across all proposals.

One of the biggest announcements was the increase from 20% to 25% of the share of climate-related spending in the next budget. Considering the challenge posed by the impact of Brexit and a reduced budget size, increasing the climate earmark means climate is considered a serious priority for the Union. This signifies Europe understands the necessity to adopt a comprehensive approach in order to deliver the type of cross-cutting transformational change needed to achieve a sustainable energy transition. However, this still falls short of the 30% requested by the European Parliament and the 40% called for by French President Macron. Ensuring adequate EU funds for climate-related investments is fundamentally important to send the right political signal to private investors and to cover the investments gap of €170 billion per year in clean energy.

As pointed out by the European Court of Auditors, clarification is needed as to **what can contribute to the achievement of overall climate mainstreaming.** While agriculture and railways are currently the two main sectors responsible for “climate spending”, the next budget will need to include coherent guidelines and targets across all the different proposals.

The sectoral analysis in this briefing demonstrates the importance of **refocusing the remaining 75% of the post-2020 MFF** in line with EU climate and energy objectives. The 2021-2027 EU budget is particularly crucial to respect the commitment taken under the G7 to stop fossil fuel subsidies by 2025. However, clear and consistent “climate proofing” criteria of EU investment are yet to be defined across the files.

Finally, the next MFF is a **key opportunity to prepare and respond to climate risk.** Specifically, as outlined in a previous **E3G briefing**, the EU budget has a role to play in four different areas: improve the assessment tool to measure how EU funds contribute to reduce climate vulnerability; reduce the protection gap, especially in those Member States which are not ready to cope with the effects of climate change; increase the funds for disaster response instruments and strengthen data collection, monitoring and evaluation.

The main sectoral budget proposals involved in achieving the transition to a low-carbon economy are analysed thereafter.



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2. Cohesion Policy funds

The **European Regional Development Fund (ERDF) and Cohesion Fund** – addressed here together as *Cohesion Policy funds* – are Europe’s main vehicle for regional development and for reducing regional disparities across Europe. This translates into support for job creation, sustainable growth and innovation across the European regions.

The Cohesion Policy funds are also one of the budget’s main spending areas and it is, therefore, essential to show a clear prioritisation of a low carbon transition objective, which is necessary to unlock the investments needed to reach Europe’s energy and climate commitments. Despite a 7% cut compared to the current budget period, the Commission’s proposed budget of €374 billion for the next period still places Cohesion Policy as the EU’s main investment programme. Given their size, the funds should also empower regions to champion a locally-driven and just transition into a greener and inclusive society.

E3G’s **benchmark** is for the Commission’s proposal to give regions the means to pursue their low carbon transition and to prioritise clean investments. To this end, the following key points must be addressed:

1. **A contribution of 40% of Cohesion Policy funds to reach the overall climate earmark of 25%¹**
2. **Refocusing investment priority on energy efficiency projects, while shifting away from funding fossil fuels**
3. **Actionable support for a just transition in high-carbon dependent regions**

VERDICT

Overall, this proposal appears to **prioritise low-carbon transition in regional development**. It makes important steps forward towards cohesion spending that is in line with the Paris Agreement goals. But further refinements are needed in the upcoming negotiations. This notably includes improving the climate proofing methodology and enhancing the level of climate-spending.

ASSESSMENT

> **Exclusion of most aspects related to fossil fuel investments**

The Commission finally took a clear stance on fossil fuels with wording effectively excluding fossil fuels from Cohesion Policy funding². However, the provision still leaves a backdoor open for liquified natural gas (LNG) and it does not explicitly exclude the *transmission* of fossil fuels, which could potentially include gas pipelines. This exclusion

¹ CAN-E **Climate mainstreaming scenarios**.

² “(h) investment related to production, processing, distribution, storage or combustion of fossil fuels, with the exception of investment related to clean vehicles as defined in Article 4 of Directive 2009/33/EC of the European Parliament and of the Council”. **Regulation proposal**, Art. 6 (1) (h).

list – once updated to exclude transmission – should be taken as a model for allocation criteria in other sectoral legislations.

> **Clear promotion of energy efficiency projects**

Energy efficiency's role in achieving a green and low-carbon Europe has been recognised as a policy objective by calling on Member States to promote "energy efficiency measures"³. This is further strengthened by the introduction of an energy efficiency focus (and renewable energy use) as a conditionality element to unlock investment in housing⁴.

> **Establishment of climate earmarking in both funds but it may not be enough to meet the overall 25% spending pledge**

In its proposal, the Commission only commits 30% of the ERDF total envelope and 37% of the Cohesion Fund budget to the climate objective. **Climate-related spending needs to increase to 40% of both funds** in order to achieve the 25% climate mainstreaming target defined in the MFF proposal⁵.

> **Climate became a criterion both to allocate and disburse funds**

- **Climate conditionality** - The gross national income (GNI) remains the main measure (counts for 80%) to allocate Cohesion funds. The novelty is that climate change – albeit to a small degree only - will also contribute to the evaluation, together with the level of integration of migrants and education. The Commission also sets out a list of result indicators to monitor and drive investment choices under these funds⁶.
- **Climate proofing** - A set of "enabling conditions"⁷ will be used as performance indicators which will condition the disbursement of funds⁸. This should ensure that Member States' investments fall in line with EU energy and climate policy frameworks to receive funds.

> **Support to a just transition to a low carbon economy albeit more theoretical than implementable**

In line with the primary scope of this fund, seeing the concept of "clean and fair energy transition"⁹ included as part of the "green Europe" policy objective shows recognition of the need to address the effects of the decarbonisation agenda in affected regions. Disappointingly, this acknowledgement is however not articulated further into actionable propositions, which raises questions as to how implementable this commitment really is. The need for Member States to prioritise just transition as part

³ Proposal for a regulation on **European Regional Development Fund & Cohesion Fund** Art 2 (1) (b) (i).

⁴ Proposal for a regulation on **European Regional Development Fund & Cohesion Fund** Art 6 (2).

⁵ CAN-E **Climate mainstreaming scenarios**.

⁶ See Cohesion policy annex document, **ANNEX I**.

⁷ *"Ex ante conditionalities"* in the 2014-2020 period are replaced by "enabling conditions". These are fewer, more focussed on the goals of the fund concerned and – in contrast to the 2014-2020 period – monitored and applied throughout the period." **Common Provision** wording, p.7.

⁸ "Member States will not be able to declare expenditure related to specific objectives until the enabling condition is fulfilled. This will ensure that all co-financed operations are in line with the EU policy framework." **Common provisions**, p. 7.

⁹ Proposal for a **Common Provision Regulation** Art 4 (1) (b).



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of their own programming process is a further hurdle to ensure affected regions effectively receive dedicated financial support.

NEXT STEPS

1. Boost support for a just transition through financial earmarking measures

The Cohesion Fund's role to reduce regional disparities combined with its commitment over the next budget period to support low carbon and just transition, means this proposal should provide **specific and actionable measures for regions to operate their just transition** from coal to sustainable energy. This could be done by specifically earmarking funds in policy objectives 1 (smart Europe), 2 (green Europe) and 5 (Europe closer to its citizens) to support the transition as it would give regions the financial support to develop and implement a bottom-up approach to a move away from coal.

2. Better define the climate proofing methodology and enhance the level of climate-spending related to climate change to add up to the 25% overall earmark

Climate-related spending needs to increase to 40% of the ERDF and the Cohesion Fund respectively in order to achieve the 25% climate mainstreaming target defined in the MFF proposal. The climate proofing methodology must be clearly defined.

3. Protect and strengthen the energy efficiency measures prioritisation

The energy efficiency first principle¹⁰ needs to translate more explicitly in the proposal. As things stand, energy efficiency is to be promoted as part of the second policy objective and for housing investments. This wording not only needs protecting, it should also be reinforced by embedding the energy efficiency first principle through specific wording that prioritises support to regional energy efficiency investments.

4. Use fossil fuel exclusion expressed in the Cohesion Policy fund proposal as a model for the MFF's other sectoral proposals.

Translate the commitment to an explicit exclusion of fossil fuels from EU funding across all EU sectoral policies. Even though the Commission does not go as far as to explicitly exclude investments in the *transmission* of fossil fuels (along with the production, processing, distribution, storage or combustion), the proposal however remains exceptional compared to other sectoral proposals in its unequivocal exclusion of fossil fuels. This needs to be applied across all other sectoral proposals like CEF, InvestEU and Horizon Europe for the EU to be in line with its Paris Agreement commitments.

¹⁰ Defined in the Governance regulation as: "(17a) 'energy efficiency first' means taking utmost account, in energy planning, policy and investment decisions, of alternative cost-efficient energy efficiency 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, whilst still achieving the objectives of the respective decisions" (Regulation 2016/0375 (COD))



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3. Connecting Europe Facility (CEF)

The **Connecting Europe Facility** (CEF) proposal provides financial support for cross-border projects developing the EU's energy, transport and digital networks. Ensuring the EU makes the right investment choices is fundamental – the long-lasting nature of energy infrastructure would otherwise lock the EU into a pathway away from the achievement of a net-zero emissions society.

CEF Energy's objectives are to facilitate energy security, sustainability and market integration. The proposed budget for achieving these goals is €43.3 billion, to be split among digital, energy and transport projects. To date, the largest part of the €5.35 billion dedicated to energy projects was allocated to natural gas transmission infrastructure. Investments in innovative technologies, such as smart grids, have so far struggled to receive funding.

This is because the eligibility criteria are currently too restrictive for smart grid projects and do not include innovation at the distribution system or distributed energy level. Smart grid projects can receive funding via CEF, but the criteria and technical requirements to receive this favour transmission networks and large infrastructure – such as involving at least two Member States and including high voltage electricity networks.¹¹ To date, only one single smart grid project – Sincrogrid between Croatia and Slovenia – has received funding under CEF.

E3G's **benchmarks** for a CEF proposal in line with the EU's decarbonisation, competitiveness and security objectives are:

- 1. Stop funding fossil fuel infrastructure altogether and make sure investments are aligned with a net zero emissions goal**
- 2. Remove obstacles to investment in innovation and distributed infrastructure such as smart grids and electromobility**
- 3. Enable investments in cross-border renewable energy projects**
- 4. Invest in the EU's energy security by increasing European electricity grid cybersecurity and assess the climate resilience of all proposed infrastructure**

VERDICT

CEF's overall envelope for energy has been increased to €8.7 billion. While progress has been made on our benchmarks, CEF still allows support to fossil fuel infrastructure. Only a clear commitment to excluding fossil fuel funding will give sufficient clarity to investors.

¹¹ <https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/assessment-framework-projects-common-interest-field-smart-grids>



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ASSESSMENT

- > CEF's overall envelope for energy has been increased to €8.7 billion. The new text contains some significant improvements:
 - **The inclusion of 10% of funding dedicated to cross-border renewable energy projects** has the potential to address barriers to important projects such as offshore wind hubs in the North and Baltic seas and renewable energy cooperation in Southeast Europe.
 - **Investments will now be assessed for climate resilience under different climate scenarios, and investments in cybersecurity for grids can now be counted as contributing to security of supply.** Greater focus on 'synergies' between technologies and sectors will also support projects that link energy and transport, such as electric vehicle charging.
- > **Lack of clear exclusion of fossil fuels infrastructure and climate proofing definition.** Unlike the Cohesion Fund policy proposal, the Commission has not fully excluded fossil fuels infrastructure from the CEF budget¹². The proposed legal text includes loopholes enabling significant investments in fossil fuel infrastructure:
 - **The CEF regulation does not fully exclude fossil fuels from receiving funding.** This could be achieved by excluding oil and gas projects from eligibility, for example by only allowing projects under Annex I and IV under the Trans-European Networks for Energy (TEN-E) regulation to be eligible.
 - **CEF-Transport is not fossil free as it references "alternative fuels"** – which are defined as including natural gas, liquified natural gas (LNG) and compressed natural gas (CNG) in the alternative fuels directive.
 - **60% of the spend are now required to go to "climate-related spending". A clearer definition of the scope of this concept must be provided.** This is necessary to clearly prevent an opening for the financing infrastructures using fossil gas.
 - **The climate proofing requirement for the remaining 40% of the program is yet to be defined.** The regulation references a process that would come up with a coherent definition across all MFF proposals, but the process and its governance are unclear, including the extent to which civil society and the European Parliament will be involved. It also references the carbon price in this context – but using a carbon price at project level is not sufficient to climate proof an investment portfolio. Instead, the evaluation of infrastructure needs should be based on their compatibility with a fully decarbonised economy.
- > **The overall climate impact of the CEF portfolio is also not included in the proposed monitoring indicators:**
 - "Number of gas projects" is not an adequate indicator for progress on security of supply. The gas grid is expected to be fully resilient within the first few years

¹² Proposal for a regulation on the **Connecting Europe Facility** CEF, Art 9.



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of the next CEF (by 2022/25)¹³. Higher energy efficiency efforts and increased deployment of renewable energy and interconnection mean this target might be achieved even earlier.

- The sustainability indicators are not sufficient to assess whether CEF supports the EU's decarbonisation aims. To ensure sustainability, the indicators should be expanded also to ensure that no projects that are contrary to the EU's climate policies are funded.
- > **The budget has been doubled, but the political priorities have not changed.** Eligibility for energy projects to access the CEF is determined by the 2013 TEN-E regulation. However, its scope excludes many innovative projects and the infrastructure priorities set out in the regulation have not been updated to bring them in line with Europe's climate goals under the Paris Agreement. As a result, new priorities should either be defined in the new CEF Regulation, or by securing a commitment to revise the TEN-E regulation.

NEXT STEPS

1. Stop funding fossil pipelines projects

Fully exclude fossil fuels from receiving funding, e.g. by excluding oil and gas projects from eligibility. This can be done by only allowing projects under Annex I and IV under the TEN-E regulation to be eligible. Other option would be to mirror the text in the Cohesion Funds and explicitly refer to transmission infrastructure.

2. Remove remaining barriers for smart grids

This can be done by either making it easier to include **smart grid projects** on the Projects of Common Interest list by removing the prerequisite for them to be on the PCI list or by creating a Smart Grid work programme.

3. Avoid backdoor options for fossil fuels subsidies

Clarify which forms of renewable gas can qualify as climate finance (i.e. exclude fossil fuels gases and specify that investments in renewable gas infrastructure must not prolong the use of fossil gas), what sustainability measures they need to be accompanied with and how they will ensure that these will only be used to transport renewable gases, not fossil gas or its derivatives.

4. Prioritise energy efficiency and allow for a greater share of funding for cross-border renewable energy projects

The proposal should **include energy efficiency** in addition to renewable energy projects as eligible for CEF funding. It should also allow for the possibility to **increase the earmarking of cross-border renewable energy projects** to 20% of the fund to be able to cover a higher demand.

5. Improve the tools to measure progress

The proposal should include **more adequate indicators** to review progress on security of supply (looking across gas and electricity) and sustainability (also monitoring that no projects contradict the EU's climate change goals).

¹³ Proposal for a regulation on the **Connecting Europe Facility** CEF, Art 9.



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4. InvestEU

The **InvestEU programme** will become the **EU's main instrument to leverage private investment** as the successor of the European Fund for Strategic Investments (EFSI). It will have the potential to mobilise public and private investment operations within the EU to address market failures and investment gaps that hamper the achievement of EU goals regarding sustainability, competitiveness and inclusive growth.

Specifically, InvestEU's aim will be to leverage €650 billion of private investment with a proposed budget of €15.2 billion in four so-called 'windows': Sustainable Infrastructure; Research, Innovation and Digitalisation; Small and Medium-Sized Companies (SMEs); and Social Investments and Skills.

E3G's benchmarks for InvestEU to achieve transformational results to boost the EU's low carbon transition from an investment point of view focus on:

1. **Stop funding fossil fuels and related infrastructure and ensure all projects are climate-aligned**
2. **Ensure that at least 40% of investments support climate mitigation and adaptation activities**
3. **Provide special support to energy efficiency projects to address low investment levels¹⁴, focusing on projects that are *scalable, productive, additional and climate-resilient***

VERDICT

The creation of an investment window specifically focused on 'sustainable' infrastructure sends the right political signal. However, the lack of explicit fossil fuel exclusion together with unclear support to energy efficiency projects means **InvestEU currently falls short of becoming a catalyst to spur on the EU's low carbon transition through its investments.**

ASSESSMENT

- > **Fossil fuel funding has not been ruled out and a method for "climate-proofing" investments in the Sustainable Infrastructure window has not yet been defined**

InvestEU's predecessor – EFSI – supported numerous high-carbon investments with just under a quarter of its budget allocated to such projects to date. This has been contradictory to meeting the EU's climate and sustainability commitments under the Paris Agreement and should have been remedied in the proposals for InvestEU.

The InvestEU proposal lists energy sector investments that are eligible for support, all of which appear positive in relation to climate. Fossil fuel investments, while not included in this list, are not explicitly ruled out – which leaves them as de facto still permissible.

¹⁴ Energy efficiency faces the largest investment gap for decarbonisation as it is €120 billion short of the €180 billion needed annually to 2040. See IEA (2017) [Energy Efficiency 2017](#) and IEA (2014) [World Energy Outlook 2014](#).



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“Climate proofing” will be applied only to projects supported through the Sustainable Infrastructure window. At this stage, the Commission provides very little detail on the climate proofing methodology, stating that it will develop guidance as a next step.

The guidance developed by the Commission will use, in an appropriate way, the criteria established by the “Taxonomy Regulation”¹⁵ for determining whether an economic activity is environmentally sustainable. Depending on what is deemed appropriate, this could ensure that investments in fossil fuels are excluded and greenhouse gas emissions are avoided or reduced by only making investments through eight means permissible, including generating, storing or using renewable energy or improving energy efficiency¹⁶.

- > **Ringfencing of 30% of funds for climate action is insufficient and a backward step. On the other hand, having at least 50% of partner investments in the Sustainable Infrastructure window dedicated to climate and environment is potentially positive**

EFSI’s goal for at least 40% of its funds to be focused on climate action highlights InvestEU’s proposed contribution of 30% of its overall budget towards climate objectives as a backward step. In addition, it is an insufficient contribution to achieving the EU’s 25% climate mainstreaming target for the whole of the MFF¹⁷.

On a more positive note, it is proposed that implementing partners (such as national public banks) should ensure that at least 50% of the investment under the Sustainable Infrastructure window contributes to EU climate *and* environment objectives. However, definitions and the process for ensuring this happens are not clear, nor is the likely impact of this requirement on the share of overall InvestEU funding and investments supporting climate action.

- > **Energy efficiency at a crossroads**

Unlike the Cohesion Fund policy proposal, the Commission paradoxically does not explicitly prioritise energy efficiency in InvestEU¹⁸ despite recognition of the significant barriers to energy efficiency investment. This is a potential concern given the fact that the two EU instruments which have focused on delivering energy efficiency investments¹⁹ are being superseded by InvestEU without being replaced. This could leave energy efficiency vulnerable to being in a worse position than under the EFSI regime, and risks continued underinvestment.

However, the proposed budget for InvestEU’s Advisory Hub – at €75m per year – is three times larger than EFSI’s equivalent. Moreover, it is proposed that the Advisory Hub focuses, amongst other things, on “facilitating development of aggregators for

¹⁵ Proposal for a regulation on **establishment of a framework to facilitate sustainable investment**.

¹⁶ Proposal for a regulation on **establishment of a framework to facilitate sustainable investment**, Art 6 –further defines the criteria for what is deemed a substantial contribution to climate change mitigation. The criteria are wide-ranging setting out the activities that constitute a “substantial contribution”, p. 26-27.

¹⁷ CAN Europe estimates a 50% share of the InvestEU budget dedicated to climate-related projects is needed to contribute to achieve the 25% climate mainstreaming target the Commission set out in its MFF proposal from 2nd May 2018. See CAN-E **Climate mainstreaming scenarios**.

¹⁸ **The impact assessment** states that “Energy efficiency will remain among key challenges, where investment needs are highest while significant barriers to investments persist”, p. 87.

¹⁹ Private Finance for Energy Efficiency (PF4EE) and the European Energy Efficiency Fund (EEEF).



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small-scale projects”, “leveraging local knowledge” to ensure widespread use of InvestEU support and capacity building for project pipeline development, for financial intermediaries focusing on clients and projects that struggle to access finance, and the development of sector specific knowledge. These are qualities, along with the increased budget, for the proposed Advisory Hub that apply themselves well to driving energy efficiency investment – so the potential for an improved energy efficiency outcome is there as well.

NEXT STEPS

1. Fully exclude fossil fuels and related infrastructure from receiving funding

The wording on fossil fuel must **explicitly exclude fossil fuel investments from the scope of InvestEU** using the example of Cohesion Policy funds proposal (with the addition of transmission of fossil fuels). Fossil fuel are completely out of line with the EU’s Paris pledge, so this would not only ensure policy coherence between EU sectoral legislation but also align EU investment policy with its decarbonisation commitment. On top of that, 50% of InvestEU funds should be dedicated to climate-related spending to achieve the 25% climate mainstreaming target set by the Commission in the MFF proposal.

2. Expand sustainability proofing to the whole InvestEU fund and define the sustainability proofing mechanism

Expand sustainability proofing to the whole of the fund – and not just one of its four windows – and align sustainability proofing to the objective of full decarbonisation by mid-century, as set out in the Paris Agreement. Expand beyond carbon-priced cost-benefit analysis in the proofing process to incorporate robust qualitative and non-financial dimensions (such as climate scenario analysis) to the proofing process that can ensure projects are Paris-consistent.

3. Prioritise energy efficiency investments and enable them to be supported via the other three investment windows as well.

Steering investments is crucial to ensure energy efficiency projects receive the support they need to overcome the usual investment barriers they face. **The proposal must therefore guarantee support to energy efficiency projects and prioritise investments in this field, to help remove those barriers to investment.** Under proposals as they stand, the InvestEU Advisory would have to play the central role in driving this outcome. This would ensure consistency with the Sustainable Finance Action Plan, whose role would be to ensure the identification of a project pipeline with scalability and additionality. Ultimately, such a comprehensive approach to energy efficiency has greater chances of successfully leveraging funds and positioning the EU as the frontrunner of energy efficiency gains and the development of an industry at global level.

5. Horizon Europe

The new European research and innovation programme is **Horizon Europe**, it follows on from the EU's Horizon 2020 with a proposed budget substantially increased to €100 billion. In a moment when China is investing more than the Union in R&I, increasing the spending on low carbon innovation is important not only to decrease the cost of the low-carbon transition, but also for Europe's competitiveness offer in a constantly changing world.

The EU's flagship programme for science and innovation support is **organised around three pillars**: (1) Fundamental research, researcher mobility and infrastructure; (2) Cluster-specific research – including a climate, energy and mobility cluster; (3) Increasing the EU's innovation output²⁰.

The new programme has been reformed to take a **mission-oriented approach**. These, whilst not identified yet, intend to define strategic and cross-sectoral objectives which will lead the way on innovation. This approach should be expanded beyond innovation policy and reach across all EU budget instruments and thereby ensure a consistent effort across policies.

E3G considers the following three **benchmarks** necessary to have a successful innovation programme:

1. **A doubling on investment in clean energy**
2. **Setting R&D missions to overcome barriers to a zero-emissions economy**
3. **Go beyond technological innovations only and support innovation that engages citizens**

VERDICT

The Horizon Europe proposal is an incremental improvement but remains far from transformational on the climate side

ASSESSMENT

- > **Stagnant contribution of Horizon Europe to the budget's climate mainstreaming objective**

The 35% of climate mainstreaming allocation of the Horizon Europe Fund has not increased since the previous budget round. While this is in line to achieve the EU's 25% climate mainstreaming objective it does not compensate for lower contribution targets announced for other sectoral policies and it also does not send a particularly strong signal of investing in green and low-carbon innovation and research.

- > **Small increase in funding for research in climate, energy and mobility**

²⁰ See the [interview](#) with Carlos Moedas, European Commissioner for Research, Science and Innovation (07.06.2018).

There is an increase – albeit small – of resources for “climate, energy and mobility” from €12 to €15 billion²¹. There are nonetheless other relevant programmes that could have a climate angle such as ‘digital and industry’ and ‘food and natural resources’.

> **A new “bottom-up” approach for EU innovation**

This is particularly the case since the missions or goals have yet to be defined. The idea is to give voice to a group of 10-15 people through mission boards, grouping Member States representatives, stakeholder groups and experts²². This is an interesting suggestion as it opens programming to civil society members and could potentially direct more attention to low carbon innovation and research. This is however conditional upon ensuring large public buy-in as well as an open, inclusive and transparent selection process.

There is also a significant move towards ‘bottom-up innovation’ which comes with a push for open calls with few pre-defined objectives. This will be done through the new European Innovation Council and strengthening the European Institute of Innovation and Technology.

NEXT STEPS

1. Ensure a clear and consistent definition of the missions

The new approach proposed by the Commission for the Horizon Europe fund is positive progress from the current system. We should now make sure that the missions include the most imminent challenges of the next decade: industrial decarbonisation and improving links between research, innovation and deployment spending to provide for scale up of new technologies. In a **previous E3G briefing**, we listed a few examples of mission-oriented priorities such as **low embodied-carbon materials; clean mobility; smart, flexible energy**.

2. Align the missions with a net-zero emission economy by 2050

Industrial sectors such as steel, cement and chemicals, are responsible for significant industrial emissions in the European economy. In 2018, the European Commission will carry out consultations which will lead to the draft of a new 2050 long-term strategy. One of the scenarios will refer to a net-zero economy by 2050, requiring steep emissions reductions in all sectors of the economy. Industrial innovation, especially in the most difficult sectors, will facilitate the achievement of this goal and safeguard continued industrial competitiveness in Europe.

²¹ **Horizon Europe legislative proposal**, p.32.

²² As expressed in an **interview** by Carlos Moedas, European Commissioner for Research, Science and Innovation (07.06.2018).



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About E3G

E3G is an independent climate change think tank operating to accelerate the global transition to a low carbon economy. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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