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REDUCING CLIMATE RISK IN THE POST-2020 EU BUDGET

HOW THE MULTI-ANNUAL FINANCIAL FRAMEWORK CAN MAKE EUROPE SAFER

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Recent droughts, wildfires and heatwaves across Europe show the danger climate change poses to economic production, natural systems and human life. As climate risks intensify, unmanaged, ever greater and far-reaching climate impacts could jeopardise European's unity and solidarity. This briefing offers analysis and recommendations for how the EU budget can best reinforce Europe's climate risk management.

The EU must act to ensure an adequate and timely public policy response to prevent and manage climate risk. The next **Multiannual Financial Framework (MFF) is an opportunity to align Europe's response to climate risk across its instruments.** The proposed €1.3 trillion, 7-year budget (2021-2027) can be effective in integrating climate risk across all of Europe's policies provided the design is adequate.

The MFF can significantly reinforce Europe's management of climate risk by:

1. **Providing more funding for climate resilience**, supported by new assessments of projected climate risk, resilience needs, and better tracking of actual spending.
2. **Climate-proofing all investment**, i.e. ensuring that each euro allocated and spent will not undermine efforts to curb climate change.

3. **Revamping the EU's approach to disaster risk management**, by investing on preparation for and recovery from crises, in addition to solely reacting to them.

Climate risk in Europe – The need for a European response

In recent years countries across Europe have experienced extreme weather-related disasters, such as heatwaves, floods, higher temperatures and forest fires.[1] In the period between 1980 and 2016, the Union spent €410 billion for damages caused by natural disasters[2] and in 2017 alone a record of €283 billion was spent globally to cover weather-related impacts.[3]

Figure 1. Main climate vulnerabilities in Europe

Source: European Environment Agency 2016

The latest IPCC report called for 'transformational adaptation measures' to ensure that countries effectively build a resilient economy and society capable of protecting all citizens and businesses. **Without prioritising resilience building and budgeting adequate financial resources, the EU will be unprepared to face climate change in the coming years.** This will require deep synergies between physical measures, social

[1] In the recently released Strategic Vision for a Climate Neutral Europe titled '***Clean Planet for all***', the European Commission identified and listed the risks of climate-change and their costs.

[2] European Commission (2018), ***Factsheet: European Disaster Risk Management***

[3] Munich RE, ***Hurricanes cause record losses in 2017 - The year in figures***

policies, and governance reforms.[4] The research arm of the European Commission found in 2018 that if GHG emissions were to continue to rise with no specific adaptation measures taken, the EU could lose €240 billion per year. Even limiting the global temperature to 2ºC would generate a welfare loss of around 0.6% GDP per year (or €79 billion per year).[5]

European Member States and institutions need therefore to equip themselves with the right tools and ambitions to respond to the biggest systemic challenge of our time. The negotiations on the European budget for the period 2021-2027 are a key opportunity to boost the EU's capacity to prepare for and cope with climate change.

This briefing identifies three areas the next EU budget must address to effectively manage climate risk:

1. **Fund resilience to climate change**
2. **Define and apply climate proofing across the whole EU budget**
3. **Develop disaster-response tools**

Climate risk, adaptation and resilience

In this briefing…

"Climate risk" refers to the full-spectrum of threats to human and natural systems posed by climate change. Climate risks include the direct physical impacts of severe weather events, as well as second and third order consequences of climate-related events – such as job losses, changes to the food system, migration, conflict and the public loss of faith in the established order to manage instability –, the potential failure of not mitigating in time, and the uncertainty around the sensitivities of the earth system (i.e. how it responds to change).

"Adaptation" refers to adjustments in ecological, social, or economic systems in response to projected climate change and its related impacts.

"Resilience" includes the ability to adapt to climate change but is not limited to it. It refers more broadly to the dynamic capacity of a system to withstand, absorb and respond to change from new or increased risks and opportunities.

[4] IPCC report, ***Strengthening and Implementing the Global Response***

[5] Joint Research Center, ***Climate impacts in Europe***

Priority 1: Funding resilience

The next EU budget holds the key to financing an effective European climate resilience strategy for the seven-year period 2021-2027. Climate impacts will only worsen so the earlier we act, the safer we will be.

In Europe, adaptation has predominantly involved the installation of hard infrastructure to absorb changes in the weather as well as sea level rise. However, Europe's approach to adaptation has yet to embrace more fundamental approaches to adapt to changes in European landscapes, jobs, food, health and energy systems. Despite assumptions that rich countries are better equipped to adapt to climate change, arguably the cultural and social challenges of climate adaptation could be more disruptive in stable regions than in places used to absorbing change. Early action can help build cultural as well as economic resilience to adapt to higher-impact scenarios as they unfold. Increasing the EU's funding for climate resilience should be twofold, firstly an increase in volume of existing approaches and secondly to diversify approaches to building resilience.

Resilience funding in the proposals for the 2021-2027 EU budget

The Commission suggests mainstreaming climate-related spending in the budget by earmarking 25% of the post-2020 budget to climate, from 20% in the 2014-2020 budget. This has the potential to drive significant investments towards climate action - both for mitigation and adaptation - in all policy areas.

However past experience shows that such **earmarking has acted more as guidance than a binding target, and actual spending has been below what was expected.**[6] For example, the Common Agricultural policy's (CAP) contribution to climate action is planned to be substantial with 40% of the programme dedicated to climate action in the 2021-2027 budget. Delivery on those CAP spending objectives is however entirely left to Member States' discretion, with no meaningful monitoring and control mechanisms foreseen. It is therefore understood to be primarily an effort to safeguard an increasingly contested part of the EU budget from budget cuts. It is unlikely to result in the implementation of necessary measures on the ground to meet the climate mainstreaming target.

Moreover, **earmarking funds for climate-related investment does not guarantee the EU budget is used to build the EU's climate resilience**. The tracking method to monitor climate expenditure currently does not distinguish the level of climate adaptation from climate mitigation spending.[7] It misses out on collecting valuable

[6] According to the Commission the 20% climate spending target will only reach 19.3% and will therefore most likely be missed, while the Court of Auditors estimates that some contributions to climate spending were overestimated. See European Court of Auditors (2018), ***The Commission's proposal for the 2021-2027 Multiannual Financial Framework: Briefing paper***

[7] The EU uses a modified version of the OECD Rio markers, which quantify climate-related in thresholds of 0%, 40% or 100% of climate spending. See European Commission website '***Supporting climate action through the EU budget***'

data that could be used to assess the contribution of projects towards building climate resilience, and guide policy and funding decisions towards geographies or fields critical to build resilience. Currently, whether a distinction is made depends on detailed provisions made for tracking climate spending in each sectoral legislation of the MFF package.[8]

Finally, the programme for environment and climate action LIFE provides some rare dedicated funding for adaptation and is expected to play a central role when developing strategies to build Europe's resilience to climate impacts. However, while its overall budget is proposed to increase by 60% - from €3.4 billion to €5.45 billion - climate mitigation and adaptation are only due to receive €950 million. This is not sufficient to compensate for the lack of dedicated adaptation funding from the remaining €1 trillion budget. Its dedicated "climate mitigation and adaptation" sub-programme should be a space for innovation to support the integration of climate resilience into all policy fields. To do so, **the LIFE programme should act as a catalyst for broader change across the other areas of the EU budget** to ensure readiness to climate risk, taking into account socio-economic aspects as well as the role of all stakeholders, both public and private.

How can the EU budget better address climate resilience?

> **Invest in climate funding and resilience**. Increase the level of funding for climate-related projects through an improved tracking system to accurately track and secure climate spending; ensure in time that spending targets are actually met. The LIFE budget in particular needs to reflect the growing need to provide more funds for climate resilience by being significantly increased in size. Horizon Europe will also need to invest more in research and innovation in future climate adaptation solutions.

> **Link climate funding to more comprehensive climate risk assessment when selecting projects across all EU funds**. Ex-ante requirements for allocating funds are needed to ensure efficient use of public funds. These should include indicators to assess the capacity of projects to cope with medium-to-long term climate impacts in different global temperature rise scenarios. They should also provide an assessment of the extent to which projects contribute to reducing overall climate vulnerability of the EU.

> **Utilise the LIFE programme to develop Europe's climate resilience solutions**. Climate change impacts will affect every corner of society, yet such all-encompassing solutions have not been developed yet at European level. The LIFE programme can act as a space for innovation, which if working in synergy with other funds (Cohesion policy, European Social Fund, CAP and others) can be the

[8] For a detailed typology of approaches to climate tracking across EU budget instruments for the 2014-2020 period see European Commission report by IEEP, Ricardo and Trinomics (2017), ***Climate mainstreaming in the EU Budget: preparing for the next MFF***, p. 144.

necessary space to experiment, develop and pilot solutions to build such multidimensional solution to Europe's resilience.

> **Make the climate spending tool fit to support decision-making on resilience.** Start using climate earmarking less as an accounting tool and more as a support for policy planning that could effectively direct funds towards resilience needs through better data collection. That means making sure the tracking system for climate spending is policy-specific and monitoring criteria are more granular while remaining comparable across funds. This would at a minimum need to systematically distinguish funding between climate adaptation and mitigation across all EU budget instruments.

Priority 2: Climate proofing the entire EU budget

Climate proofing the EU budget is about ensuring that each euro allocated and spent will not undermine efforts to curb climate change, and that every investment is resilient against future climate risk. In practice, it implies ensuring that the share of the budget not earmarked for climate-related investment does not undermine EU climate and energy commitments. This means excluding fossil fuels from receiving funding, avoiding emissions by prioritising energy saving measures when possible, and ensuring all EU investments are aligned with the commitments under the Paris Climate Agreement.

Climate proofing in the current EU budget proposal

The Commission **did not propose sufficient climate proofing across all budget instruments**, and as such missed the opportunity to propose a coherent approach to align EU budget instruments with Europe's commitments under the Paris Climate Agreement.

Most noticeably, the **Commission did not propose to exclude funding for fossil fuels**, despite the EU's own G7 and G20 commitments to phase out fossil fuel subsidies by 2025. Only the cohesion policy proposals include provisions to put an end to fossil fuels funding. Failing to implement a cross-fund fossil fuel exclusion allows other funds such as the Connecting Europe Facility and Horizon Europe, that have been proven to support funding incompatible with the Paris Agreement in the past, , to continue investing in unsustainable projects.[9]

The need to be Paris-aligned would need to be applied to all the EU budget, however the lack of cross-MFF climate proofing could result in a **piecemeal approach to climate proofing**. Across the budget, only certain funds have climate proofing provisions, which means not all policies and not all financial flows would be checked for their compatibility with EU climate and energy goals. The Connecting Europe Facility, Cohesion policy and InvestEU legislative proposals include provisions to ensure infrastructure projects are climate proofed. While the focus on climate resilience of infrastructure is welcome, only systematic climate proofing of all EU subsidies through all EU policies can ensure full Paris-alignment.

Finally, promoting the **efficiency first principle**[10] and prioritising energy savings before investing across the budget would have ensured more systematic emissions savings as any spending would first have had to consider cost-efficient energy efficiency

[9] See Navigant (forthcoming), ***Climate-friendly design of the overall EU budget***

[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))

measures before being made. However, none of the budget instruments have embedded energy efficiency first as a principle to follow. Only Cohesion policy funding prioritises energy efficiency. Other funds like InvestEU, which is aimed at addressing market failures, while not clearly prioritising energy efficiency could serve energy efficiency investment through its dedicated funding for sustainable infrastructures.

How can the EU budget be better climate proofed?

- Reducing emissions is essential to reduce climate risk:
  - **Excluding fossil fuel and unsustainable investments** from receiving EU subsidies through sustainability proofing guidelines across the MFF.
  - **Integrate the energy efficiency first principle across the EU budget** and ensure energy-saving solutions are considered before committing to any investment.
- Coherent and consistent **sustainability proofing guidelines across MFF** funds. This is essential to ensure all policies and EU investments are Paris-aligned. In particular all infrastructure investments should be justified in the context of the Paris Agreement goal of holding average global warming to 1.5°C, and of the Commission's vision of a net-zero emissions EU by 2050 at the latest as part of its recently released long-term climate strategy.
- **Address the social dimension** of decarbonising Europe's economy and mitigating climate impacts. A variety of measures are required to ensure Europeans and communities are both supported in adapting to changing conditions, but also supported in preparedness and resilience to climate impacts. Measures include retraining to changing employment landscapes, investment in community organising to help manage climate extreme events or education and awareness-raising about projected impacts and the development of community-focused approaches.
- **Integrating resilience to climate risk in all investment decisions**. All infrastructure investment should be proofed against the resilience to the risks of climate change projected during their lifetimes. Given the uncertainty regarding how quickly countries will mitigate and the risk of breaching irreversible tipping points, a precautionary approach is of the essence for the security of European citizens. As long as the current commitments under the Paris Agreement (National Determined Contributions, or NDCs) are not reviewed and their ambition increased, the MFF should be designed to finance resilience against the impacts of 3°C to 4°C warming scenarios, which is the current warming trajectory we are on now.[11]

[11] See UNEP (2018), ***Emission gap report 2018***

Priority 3: Disaster response

Since the early 2000s, the EU uses the EU Civil Protection Mechanism (€223.7 billion[12]) and the EU Solidarity Fund (€2.6 billion[13]) as the two main tools for disaster response. Their contribution to disaster risk management has remained limited, as their purpose is mainly to complement national efforts.

Even though the Commission recognises that every €1 spent in risk prevention would save up to €7 in disaster-response actions[14], these two financial instruments have always been used to **react to crises rather than investing to prepare to and recover** from them. The need for changing this investment attitude becomes even more urgent when considering that climate-related disasters are increasingly frequent.

Disaster response in the current EU budget proposal

In the Commission's post-2020 MFF proposals, the Humanitarian Aid which provides resources for the EU Civil Protection Mechanism has been increased by 30% to €11 billion. While this signals that the urgency of the disaster response issue is well understood, the fund would still be spent towards disaster response exclusively, rather than preparedness.

The second EU tool for disaster response, the EU Solidarity Fund, has been integrated in the reformed Cohesion funds (proposed €273 billion), where climate adaptation and risk prevention and management are part of the programme's climate policy objectives[15]. Additional financial support will be provided through the LIFE fund – the MFF's only fund entirely dedicated to environmental and climate action. Around €1 billion has been proposed by the Commission to finance climate mitigation and adaptation, as one of LIFE's sub-programmes[16]. In this sense, the LIFE fund's contribution to EU disaster response management would be preventive rather than reactive. The Commission also proposes to fund disaster resilience research and innovation as part of the Horizon Europe Programme's €2.8 billion 'Inclusive and Secure Society' cluster. There are however no clear cross-cutting measures to encourage learning and evaluation on disaster risk management between these various funds.

[12] European Commission (2016), ***Financing Civil Protection***

[13] European Commission (2017), ***EU Solidarity Fund Interventions since 2002***

[14] European Commission, ***Disaster Risk Reduction website***

[15] European Commission (2018), ***European Regional and Development Fund and Cohesion Fund***

[16] European Commission (2018), ***Factsheet: LIFE Programme***

What could be improved

> **Ensure sufficient funding for disaster management**. At present, European Member States are not sufficiently prepared to manage climate change[17]. The ongoing negotiations on the next European Budget for the period 2021-2027 – and on the sectoral legislations – are a big opportunity for EU policy-makers to ensure that sufficient resources will be dedicated to disaster response investments in the future. Linking funds that address disaster risk management through learning and evaluation mechanisms would encourage the development of more adapted management strategies as well as help create adaptation pipelines for repeat risks.

> **Develop an EU plan to reduce and manage climate risk to channel the resources where most needed.** This should include a multi-stakeholder approach to managing risks. Greater fallout from climate change will require all private and public stakeholders to share responsibility in managing disasters.

> **Incentivise member states to develop national adaptation strategies, including contingency plans for climate extremes.** When planning investment needs for infrastructure, innovation and other relevant sectors, the EU must consider assessment on climate vulnerability and risk, including contingency planning for extremes and worst-case scenarios. If these two dimensions are not integrated, the Union runs the risk of harmful and unnecessary investments.

> **Shift the paradigm from reactive to preventive spending.** The European approach towards disaster management should change in order to ensure an efficient and effective result. Climate and disaster risk must go hand-in-hand and an ad-hoc supervisor – such as the European Environment Agency – should be responsible for monitoring and assessing the climate vulnerability of the Union.

[17] European Court of Auditors (2017) ***Landscape review: EU action on energy and climate change***

Supportive measures

Financing climate change adaptation, climate proofing and disaster risk management is essential for the next EU budget to successfully set up the EU with the means to manage climate risk effectively. However, to ensure effectiveness of EU spending on climate risk and maximise impact of these measures, complementary actions are required to improve monitoring and learning as well as reducing the protection gap.

> **Monitoring and learning**

The **EU's commitment to deliver a results-focused budget depends on evidence-based monitoring mechanisms of its spending**. For climate spending, this means collecting reliable information on investment needs and systematically tracking climate adaptation and mitigation spending across all budget instruments. This data is needed to feed into a learning process around developing adequate disasters response solutions that look at all socio-economic aspects of adaptation.

Accurate data on climate vulnerabilities is still very much lacking and is particularly acute for investment needs, planned investments and actual expenditures.[18] The European Environment Agency should be tasked to conduct a comprehensive monitoring of internal and external climate vulnerabilities in the EU.[19]

> **Close the protection gap from climate impacts.**

Currently assets are not properly insured against the impacts of climate change. In a previous **briefing**, we reported that two thirds of all economic losses resulting from climate-related impacts in the EUs since 1980 are uninsured and therefore unrecoverable. Behind the statistics, this state of affairs risks deepening social and geographical inequalities. The trend towards more frequent climate disasters will only increase the price of insurance and lead to more sectors struggling to meet these costs. Equally, climate impacts will affect member states and regions differently, with data from the European Environment Agency showing notably that South and South-Western European countries will be worst affected[20].

The next EU budget which aims both at resource efficiency and showing added value to European citizens needs to address these issues and **shield European finances from economic losses as well as protecting vulnerable citizens**. The MFF could include measures to increase insurance coverage to the most vulnerable replicating existing international initiatives[21] to the EU context. Across EU budget instruments, a

[18] See Trinomics report (2017), '***Assessing the state-of-play of climate finance tracking in Europe***'

[19] E3G - Campillos and Cook (2018), ***Climate risk and the EU budget: investing in resilience***

[20] European Environment Agency (2017), ***Climate change, impacts and vulnerabilities in Europe 2016***

[21] The InsuResilience partnership was established by the G7 in 2015 to improve emerging economies' coverage against climate risks aiming to extend insurance to 400 million vulnerable people in developing countries. European Commission (2017), ***European Structural and Investment Funds database*** and E3G (2017), ***Climate risk and the EU budget: Investing in resilience***

specific focus should be given to identifying projects that have the potential to close the protection gap by targeting people vulnerable to climate impacts.

Conclusion

Addressing climate risks requires the EU's next MFF to use the coming years to decidedly invest in building Europe's resilience to growing climate impacts. This needs to be reflected in the design of the MFF and its various instruments.

Our analysis of the post-2020 MFF identified climate resilience, climate proofing and disaster management as the three main areas where the EU can direct funds to address climate risk. As things stand however, these tools, while useful, are not fully set up to secure Europe's resilience to climate change impacts. This briefing aimed to highlight some of the issues at stake and offer some potential avenues to consider.

The main challenges will be to see the existing provisions around climate mainstreaming, climate proofing and disaster management through the upcoming negotiations between the European institutions that will decide on the next EU budget.

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