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BACKGROUND BRIEFING JUNE 2017

CLIMATE ACTION AND THE EU BUDGET

KEY ISSUES FOR THE POST-2020 MULTIANNUAL FINANCIAL FRAMEWORK

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- The Multi-Annual Financial Framework (MFF) is a key instrument for the European Union to address major cross-border challenges such as responding to climate change and the clean energy transition.
- The European Union has committed itself to the decarbonisation of its economy. The post-2020 MFF will need to fully reflect Paris Agreement commitments and the EU's climate and energy policies. As such, it must have a strong overall coherence to ensure that funds are spent in an efficient and targeted way.
- Globalisation and technology change bring along important challenges but also numerous opportunities. The clean energy transition has the potential to make technology change work for vulnerable sectors of society such as low-income households, local actors and SMEs. The post-2020 MFF needs to become an enabling framework for the decarbonisation of the economy to work for citizens.
- The post-2020 budget needs to be mission-oriented, univocally supporting a more sustainable, stronger, low-carbon economy. Living up to its climate and energy commitments is the best way for the European Union to address most of its societal and economic challenges in a comprehensive and holistic way.

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Background

The European Union will soon start the drafting process for the Multiannual Financial Framework (MFF), the 7-year programme setting down the long-term financial planning of the Union's spending. Not only does the MFF reflect the priorities and objectives to achieve for the Union in the coming years, but also the way EU institutions are planning to meet them with specific budget allocations to different areas. So far, the EU budget has been pulling in opposite directions, without a clear vision for what the European Union wants to become in the coming years.

The post-2020 MFF will be debated, negotiated and constructed along with the process of Brexit and the discussions on the future of the EU, which will shape the future aspirations of the EU. This makes it even more important for the new MFF to become a real enabler to allocate funds in a much more coherent and efficient manner and to make the EU more resilient, more sustainable and more innovative. Technological development is already challenging the Union's economy and is having a strong impact on its social fabric, putting the welfare of most vulnerable sectors at stake. In a world where national borders are less relevant for economic activity, solutions have to be outlined at a different administrative level. The EU has recently launched its reflection paper on the social dimension of Europe to identify social risks and potential for action. In addition, the EU is already outlining a new common industrial policy to adapt to technology change and the opportunities and challenges that come along with globalization and the increasing trend towards automation. The post-2020 MFF is another step in that direction and we must ensure we take this step firmly.

The decarbonisation of our economy both a product of and a solution provider to the changing dynamics in technology and the global economy. According to the OECD, coupling climate and economic policies has an important positive impact on growth[1]. The post-2020 MFF is the instrument for the European Union to take a leadership role in the clean energy transition. The Union has already submitted a collective commitment to the low-carbon transition under the Paris Agreement and is working on aligning its domestic climate and energy framework with such commitment. However, in order to better seize the opportunities that the clean energy transition holds, this effort also needs to be collective. Member States are expected to submit their National Energy and Climate Plans (NECPs) on how they intend to meet their climate and energy targets by 2018. Only by coupling these NECPs with a strong, mission-oriented MFF the European Union will be able to provide certainty for investors and lead the way in a decarbonisation that works for citizens.

[1] OECD (2017), Investing in Climate, Investing in Growth: **http://www.oecd.org/environment/taking-action-on-climate-change-will-boost-economic-growth.htm**

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A post-2020 budget in line with a fair transition

Questions

> How can the EU budget cushion the harmful effects of technology change?

> How can EU structural funds be used for promoting low-carbon investments?

Technology is changing the world we live in, providing new ways of communicating and interacting with others, but also new venues for economic growth. This profound change is, however, having some harmful side effects on job creation and welfare systems in Europe[2]. The clean energy transition, also largely a product of technology development[3], is a viable alternative to counter this impact. Regions with a strong presence of energy-intensive industries are already suffering from job relocation and economic depression. Climate and energy policies provide a forward-looking vision into alternatives to mitigate the harmful impact of the technological revolution on the most vulnerable. According to the figures provided by the European Commission, clean energy is already an engine for growth and jobs[4].

But there is potential to do much more. Cohesion policy and the European Structural and Investments Funds (ESIFs) are very well positioned to act as catalysers of these alternatives. Cohesion policy is estimated to mobilise up to €450 billion in the 2014-2020 period, becoming one of the main sources of EU funds for regions. However, the way these funds are allocated to specific projects is still subject to controversy over alleged corruption and lack of tracking mechanisms. The new post-2020 MFF needs to make sure that the decision-making processes by which these funds are allocated is more transparent in order to better assess whether the projects targeted are aligned with the EU's long-term strategy of decarbonisation.

Similarly, ESIFs have not been very successful in targeting low-carbon alternatives in areas that need them most. This misguided allocation of resources could eventually lead to a lock in[5] that would render target regions and sectors even more vulnerable to technology change. To avoid counter-productive spending, these funds need to be used to put EU regions at the forefront of the changes that our social and economic systems are undergoing.

[2] European Commission (2017), Reflection paper on the social dimension of Europe: **https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-social-dimension-europe_en.pdf**

[3] IEA website: **https://www.iea.org/topics/cleanenergytechnologies/**

[4] European Commission Communication on the Clean Energy for All Europeans Package: **https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/COM-2016-860-F1-EN-MAIN.PDF**

[5] Friends of the Earth & CEE Bankwatch Network (2016), Climate's Enfants Terribles: How new Member State's misguided use of EU funds is holding back Europe's clean energy transition: **https://bankwatch.org/sites/default/files/enfants-terribles.pdf**

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A post-2020 budget in line with a resilient European economy

Questions

> What can the post-2020 MFF do to tackle climate risks?

> What flexibility mechanisms do we need to address increasingly adverse climate conditions?

The transition to a low-carbon economy is an opportunity to address challenges ahead, but also a necessity to counter current risks. Changing climate patterns are already having a tremendous impact on the livelihoods of European citizens. Climate risks can be more evident as -but not limited to- extreme weather conditions provoking major economic losses to farmers or severe floods causing unaffordable repair costs for SMEs. Local actors are also vulnerable to these events due to insufficient insurance coverage[6], putting at risk the lives and welfare of the 75% of Europeans that live in urban areas and the 85% of the EU's GDP that is generated in cities[7].

In fact, according to estimates of the European Environment Agency, the economic damages of climate impacts are becoming unbearable for the European economy, with an average loss of €13.6 billion a year[8]. Economic actors in less advantageous position suffer from these losses even harshly. Higher insurance costs create a de facto barrier for these actors to access coverage, leaving them unprotected and therefore more vulnerable to unforeseen climate impacts. This creates a self-reinforcing cycle where less privileged economic actors will see their situation even more degraded, leading to increasing inequality and potential social unrest.

The post-2020 MFF provides a golden opportunity to address these inequalities and to make the EU's economy more resilient to climate risks. By sending the right signals, EU funds could help de-risking investments, mobilising enough resources from both public and private sources. For this to succeed, there are two main opportunities ahead for the new financial framework. First, greater flexibility to better adapt to the risks of a fast-changing climate. Second, the creation of an EU-level Energy and Climate Risks Observatory with the tasks of identifying risks that could affect delivery of European energy policy objectives and monitor progress against policy objectives, including tracking investment flows at the national level to better account for climate finance. This monitoring task should also be done in regard to coverage, availability and affordability of natural disaster insurance with a focus on vulnerable groups. Only through coherent, integrated action the EU's economy will become more resilient to future shocks.

[6] E3G (2014), Underfunded, underprepared, underwater? Cities at risk: **https://www.e3g.org/docs/E3G_Underfunded,_underprepared,_underwater._Cities_at_risk.pdf**

[7] Eurocities (2013), Green growth: **http://www.eurocities.eu/eurocities/issues/green-growth-issue**

[8] EEA (2017), Climate Change Impacts and Vulnerability: **https://www.eea.europa.eu/publications/climate-change-impacts-and-vulnerability-2016**

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A post-2020 budget in line with the EU's climate and energy commitments

Questions

> Will the EU comply with its international commitments and end all fossil fuel subsidies?

> How can the EU budget be brought in line with climate and energy commitments?

The post-2020 MFF has potential to provide alternatives to address the main challenges ahead for the EU. However, the framework itself should also undergo both a re-structuration and a re-focusing process to better adapt to our climate commitments. Under the current MFF, the EU is underperforming and not meeting its budgetary climate earmarks. For example, the European Court of Auditors already warned that the EU will probably miss the current 20% target for climate-related investment[9]. On top of that, the current 7-year structure is not in line with the Paris Agreement timetable, which requires a periodic revision of the level of ambition. A 5-year structure would be more responsive to both the EU's political cycle and the Paris timetable, allowing for a much more coherent alignment between investment needs and planning and making the EU's multi-annual financial programming more flexible. Therefore, there is significant room for improvement for the new financial framework, both on the side of delivering to the earmarked targets and on the side of making the whole process more flexible and adaptable to the commitments under the Paris Agreement.

On the other hand, the EU's MFF is currently pulling in opposite directions. Some budget allocations directly collide with the agreements the EU has committed itself to uphold. Investments in gas infrastructure are a glaring example of this. Nowadays, the EU's Connecting Europe Facility (CEF Energy) has developed a list of Projects of Common Interest (PCI) for energy interconnections where EU funds could make the difference and provide a real European value added. Unfortunately, this PCI list is too focused on increasing the volume of gas infrastructure, leading to overspending in high-carbon gas. The current logic behind the MFF is therefore offsetting progress in some crucial files with counterproductive investments in other areas. To avoid this, the new Multiannual Financial Framework must be coherent with the EU's domestic and international commitments. Phasing out fossil-fuel subsidies would be an important first step in the right direction, responding to investor concerns[10], making the EU a world leader in the matter and setting a precedent for others in the G20 to follow its example.

[9] European Court of Auditors (2016), Special report: **http://www.eca.europa.eu/Lists/News/NEWS1611_22/SR_CLIMATE_EN.pdf**

[10] UNFCCC (2017), G20 must phase out fossil fuel subsidies by 2020: **http://newsroom.unfccc.int/unfccc-newsroom/g20-must-phase-out-fossil-fuel-subsidies-by-2020/**

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A post-2020 budget in line with a fully-fledged Energy Union

Questions

> What are the potential benefits of aligning the post-2020 MFF and the governance of the Energy Union?

> Can EU funds become the instrument to ensure compliance with the EU's climate and energy framework?

For the post-2020 MFF to be an effective instrument, it also needs roadmaps to guide its implementation in the long-term. On November 30th 2016, the European Commission tabled a series of proposals to overhaul the EU's energy system, making it fit for a greater share of renewables and adapting it to the climate commitments reached under the Paris Agreement in November 2015. The Regulation on the Governance of the Energy Union is an essential element of the so-called Clean Energy package, for it provides a clear set of rules for planning, reporting and assessing progress made by EU Member States to meet their collective targets for renewables, greenhouse gases emissions and energy efficiency [11]. The proposal attempts to streamline and simplify all reporting obligations for EU Member States through the submission of National Energy and Climate Plans (NECPs) drafted according to a common template provided in the Regulation itself. This would help the European Commission monitor progress towards meeting their 2030 targets and their nationally intended contributions under the Paris Agreement.

These National Energy and Climate Plans could be the stepping stone in the process of bringing the EU budget in line with the energy transition. EU Member States will submit their initial plans in 2018, right when the European Commission will be considering its first proposal for the Multiannual Financial Framework. This is a golden opportunity to encourage Member States to use their NECPs as a detailed, coherent investment plan, complemented with adequate financing strategies at EU, national, regional and local level. This will generate certainty for financiers to put their money into clean investments. The post-2020 MFF could potentially complement these plans by offering investors the necessary financial backing to invest in projects and regions that are currently too risky for them to go alone. On the other hand, the MFF could be an instrument to ensure compliance with NECPs, linking the allocation of EU funds to the ambition that EU Member States pledge, in line with the provisions in the Governance Regulation that allow the European Commission to take measures to avoid delivery gaps.

[11] E3G (2017), Governing the Energy Union: Architecture of the Energy Transition: **https://www.e3g.org/library/governing-the-energy-union-the-architecture-of-the-energy-transition**

A post-2020 budget in line with a greater role of local actors

Questions

> How can the post-2020 MFF be an enabler for ambition at the local level?

> What barriers do local actors encounter when accessing to finance?

Local actors are increasingly becoming more prominent in the climate and energy agenda. Not only are they usually more ambitious when it comes to setting targets for the clean energy transition, but also they have huge potential to contribute with specific measures to turn this ambition into reality. For example, most progress made in energy efficiency needs to be addressed at the local level through building renovations, while reducing greenhouse gas emissions is intrinsically linked to local transportation. Across Europe, more than 5,800 Sustainable Energy Action Plans have been developed by local authorities under the Covenant of Mayors framework[12], an example of bottom-up transformational potential. For that reason, the implementation of long-term planning can only be done if local actors' needs and concerns are taken into account.

Despite being so active in the matter and ramping up their efforts to tackle climate change and foster the rollout of renewable energy, local actors encounter numerous challenges when implementing their commitments. They often lack the means to harness their huge potential to bring about real change. One of the main examples is the access to funding. Too often local authorities do not have enough certainty about the financial instruments and mechanisms at their disposal or the resources allocated to headings they can have access to. The post-2020 MFF should be clearer in this regard, also making sure that innovative options such as Public-Private Partnerships (PPPs) are considered to maximise the effect of actions taken at the local level.

On top of information and clarity, local actors sometimes also lack the expertise and resources to submit applications for funds and to identify the correct mechanism or instrument that suits their needs best. Due to its monitoring tasks, the eventual Energy and Climate Risks Observatory could also act as a liaison institution to inform cities of the budget allocations they can potentially make use of according to their specific needs. The post-2020 MFF should therefore ensure that local actors are given the correct tools to complement efforts made at other administrative levels. Cities are taking the lead in the low-carbon transition and it is time for the Multi-annual Financial Framework to provide them with the instruments to make the most of their leadership.

[12] According to the figures provided by the Covenant of Mayors as of June 2017: **https://www.covenantofmayors.eu/actions/sustainable-energy-action-plans_en.html**

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. 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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