



POSITION ON THE EU BUDGET POST-2020

Climate Action Network (CAN) Europe is Europe's largest coalition working on climate and energy issues. With over 130 member organisations in more than 30 European countries - representing over 44 million citizens - CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.

The forthcoming EU budget post-2020 must serve higher climate ambition both in Europe and worldwide, catalyzing the zero-carbon transition of our societies, including the phasing out of fossil fuels towards 100% renewables and fully energy efficient economies.

The EU's long-term budget, the so called Multiannual Financial Framework (MFF), currently defines the EU's spending priorities over a seven-year period. The preparations for the next EU budget post-2020 are underway with the European Commission expected to publish its proposal for the post-2020 MFF by the end of 2017.

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

While these features indicate important efforts to integrate climate action across EU spending, sectors that are substantially supported by EU funds such as agriculture, transport and residential continue to be major greenhouse gas emitters in Europe. 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 EU budget's full potential to catalyze the zero-carbon transformation in Europe remains largely untapped.

It is crucial that the next EU budget delivers on and even strengthens the EU's climate objectives and policies, including the 2030 climate and energy targets. The EU budget can help build a strong domestic market in renewable energies, put energy efficiency first, help roll out low-emission mobility, foster technological leadership in the development of clean energy solutions, support innovative sustainable solutions in all sectors and enable its development partners to profit from progress achieved. It can also help to put citizens at the heart of the clean energy transition.

A reform of the EU budget is needed to bring it in compliance with the Paris Agreement on Climate Change, including its long-term goals¹ and to make EU-'finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development' (Paris Agreement, Art.2).

¹ In the Paris Agreement, governments committed to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels"; http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

KEY POLITICAL DEMANDS

1. Make the EU budget compatible with the Paris Agreement

- Shift the EU budget's financial flows towards a 1.5°C scenario (Paris Agreement, Article 2) and increase the EU's climate ambitions in light of the Paris Agreement's long-term objectives;
- Dedicate 40% of the future EU budget to climate action;
- Increase Project Development Assistance for clean energy projects including capacity-building for beneficiaries; Climate proof the entire budget by:
 - conducting climate impact assessments of the various budget lines in view of the EU's commitment to decarbonise;
 - improving the applied climate action tracking methodology;
 - introducing mandatory ex-ante climate compatibility checks of programmes and projects and regular monitoring and reporting on how the EU budget is contributing to the EU's decarbonisation commitment;
- Establish via National Energy and Climate Plans (NECP) a direct link between the level of the national climate ambition put forward to achieve the Paris Agreement and the respective level of EU funding;
- Create a performance reserve or conditionality which incentivises increased climate and clean energy commitments in the national energy and climate plans. EU co-financing rates should depend on the level of contribution to climate goals.

2. Finance clean energy only

- Apply the Energy Efficiency First principle for all investment plans and programmes;
- Fully exploit the potential of renewable energy, energy efficiency and demand-side management, electricity transmission and storage;
- Exclude any support for fossil fuels, fossil fuel related infrastructure or technology;
- Only support the efficient use of sustainable biomass conditioned to stringent sustainability criteria.

3. Improve climate action funding in forestry, agriculture, transport and industry

- Boost climate change mitigation and adaptation in forestry and in the reform of the Common Agricultural Policy to ensure that farming practices are genuinely contributing to resilient ecosystems and sustainable management of natural resources and to climate action;
- Prioritise transport investment that increases electric mobility and phases out support for airports. To justify transport funding, all applications for funding should be shown to decrease CO₂ emissions;
- Support research, development and implementation of low-carbon strategies in industry to replace emission-intensive basic materials processes, e.g. for industrial gases, cement, steel or chemical production.

4. Strengthen resilience to climate change

- Support the revised EU Adaptation Strategy so that it reaches the most vulnerable communities, sectors and regions that will suffer the impacts of climate change more severely. For example, poorer and marginalised communities and neighbourhoods, small-scale farmers and fishers, small to medium sized businesses.
- Accelerate the people-centered and Just Transition by:
 - providing tailored financial support to communities and vulnerable households;
 - supporting regions with particular transformation challenges, e.g. mining regions, for developing and implementing long-term strategies for economic diversification towards sustainable economic activities;
 - increasing the role of cities and regions in investment planning for decentralised clean energy solutions;
- Involve stakeholders and partners in planning, monitoring and implementation of EU budget climate action.

5. EU funding outside the EU

- Enable structural reforms and a fair energy transition in the Accession, Neighbourhood, African Caribbean & Pacific (ACP) and other developing country partners in line with the Paris Agreement;
- Foster longer term sustainable development and climate adaptation in third countries in particular through the EU's Global Climate Change Alliance and regional arrangements e.g. with Africa, including nature-based solutions to climate change and fulfillment of sexual and reproductive health and rights.
- Strengthen the monitoring, tracking and reporting of EU funds to third countries, harnessing the principle of delivering transparent public finance to vulnerable communities unequally affected by the interrelated impacts of climate change, poverty and inequality.

6. Greening the Own Resources

- The EU budget's 'Own Resources' should deliver on EU climate policies and address fiscal distortions that favour fossil fuel-powered economies on national level e.g. through a carbon tax implemented in conjunction with the EU Emission Trading System (ETS).

INTRODUCTION: The EU budget's role to empower higher climate ambitions

The EU needs to ramp up its climate action

Faced with the emerging evidence of global climate crises, it is high time for the EU to accelerate its climate action. With the growing urgency and intensity of climate change and its impacts, it is clear that the current EU 2030 climate and energy framework is not a sufficient contribution towards international climate action.

The EU's 2030 climate and energy targets were crafted and agreed before the Paris Agreement was adopted. These targets therefore do not represent the necessary level of ambition needed to genuinely pursue efforts to limit global temperature rise to 1.5°C.

According to the latest UNEP Emissions Gap Report, even to keep temperature rise below 2°C, let alone 1.5°C, all countries will need to reduce their 2030 currently forecast emission levels by another 25%².

In order to align EU policies with international climate objectives, in particular to incorporate the outcomes of the Paris agreement, the EU and its Member States must immediately increase the EU's 2030 climate and energy targets to pursue a global temperature limit of 1.5°C: the EU's emissions reduction target should be increased to at least -55%, its renewable energy target to at least 45% by 2030, and energy efficiency to at least -40% by 2030.

The Multiannual Financial Framework should serve higher climate ambition

The next EU budget will be crucial to helping the EU deliver on higher climate ambition. Particularly in the sectors covered by the Effort Sharing Regulation³, it must catalyze the transition away from fossil fuel dependency, and greenhouse gas and resource intensive activities towards 100% renewables and fully energy efficient economies. To this end, climate mainstreaming must be fully applied to the entire EU budget.

The EU's current 2030 climate and energy framework contains a binding target to cut greenhouse gas (GHG) emissions in EU territory by at least 40% below 1990 levels with an expected share of 50% renewable electricity. This 40% GHG reduction target is composed of two sub-targets: sectors falling under the EU emission trading systems (ETS), mainly power and industry, would have to cut emissions by 43% compared to 2005. The so called 'non-ETS' sectors - accounting for almost 60% of total EU emissions⁴ - such as transport, buildings, agriculture and waste, would need to cut emissions by 30% compared to 2005, based on individual binding targets for Member States.

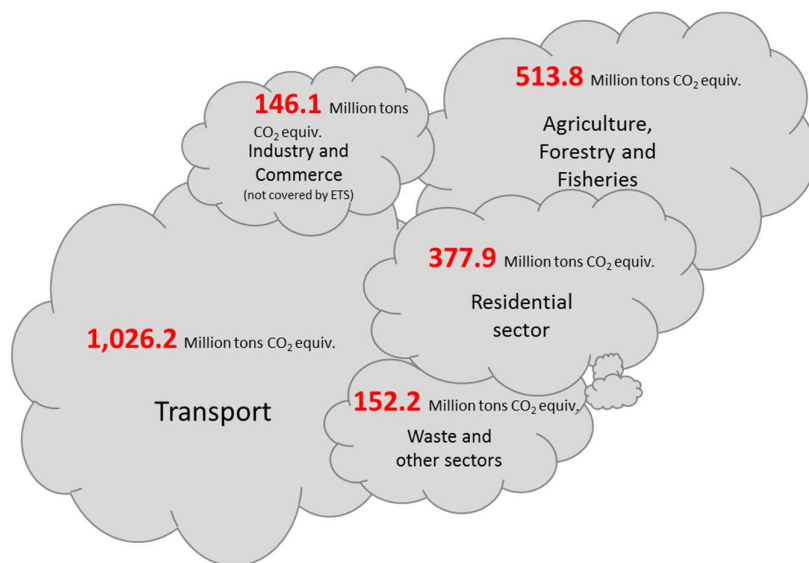


FIGURE 1: GHG EMISSIONS FROM 'NON-ETS' SECTORS, 2014⁵

² https://uneplive.unep.org/media/docs/theme/13/Emissions_Gap_Report_2016.pdf

³ [http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/589799/EPRS_BRI\(2016\)589799_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/589799/EPRS_BRI(2016)589799_EN.pdf)

⁴ https://ec.europa.eu/clima/policies/effort/proposal_en

⁵ Own calculation based on "EU energy in figures, STATISTICAL POCKETBOOK 2016, <http://ec.europa.eu/energy/en/data-analysis/energy-statistical-pocketbook>

The EU budget is channeling substantial financial sources into these sectors, 84% (€120 billion) of the EU budget in 2014 was spent on European farmers and fishers, energy infrastructure, transport, housing and waste management, small and medium sized enterprises, research and innovation and the economic and social development of Europe's regions.

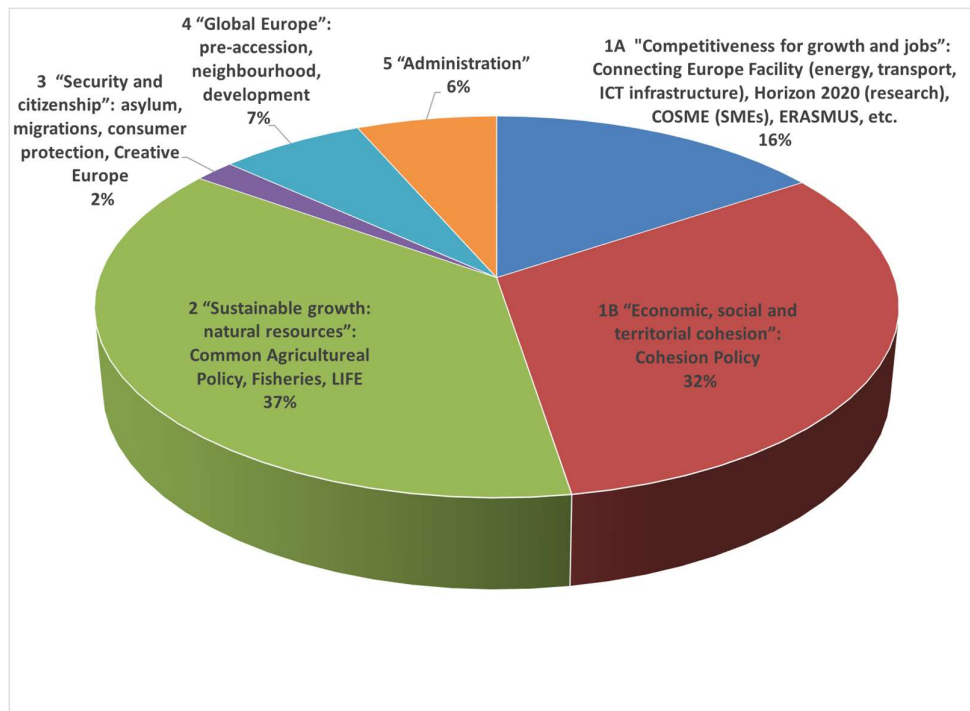


FIGURE 2: EU BUDGET 2014-2020, BUDGET HEADINGS

It is difficult to establish a direct link between the level of EU funding and the level of greenhouse gas emission reductions in the sectors supported by the EU budget. However, it is evident that the current EU budget is underperforming in adequately addressing climate change:

- Although the Cohesion Policy funds (Cohesion Fund, European Regional Development Fund and European Social Fund) are contributing to advancing the 'shift towards a low-carbon economy', these EU funds are serving multiple and partially contradictory objectives; for example through supporting gas pipelines, "clean" coal and emissions intensive transport infrastructure.
- At the same time, EU funds' potential to accelerate the clean energy transformation remains largely untapped. Member States plan to spend on average a mere 7% of all their EU 2014-2020 Cohesion Policy funding⁶ on energy efficiency, renewables, electricity distribution, storage and smart grids.
- The Connecting Europe Facility (CEF) still heavily supports fossil fuels. In its five calls for projects in the period 2014-2017 is allocating €1.1 billion of CEF funding to gas projects. This is more than twice as much as electricity interconnection projects have received so far. Furthermore, on top of the CEF, Member States are planning to spend €930 million of their 2014-2020 Structural Funds on gas infrastructure while, in some regions in Poland and Czech Republic households receive EU funds to replace their old domestic coal boilers with newer coal combustion systems which is locking households into fossil fuel demand for decades.
- Transport has seen its greenhouse gas emissions steadily increase over the past two decades while benefitting from wide-scale EU funding. Transport (including aviation and shipping) now emits around 31% of all the greenhouse gases in Europe⁷. The EU Cohesion Policy funding in the transport sector is heavily biased towards high-carbon transport infrastructure: twice as much is planned to be invested into road infrastructure than in low-emission mobility solutions⁸.

⁶ http://ec.europa.eu/regional_policy/cs/policy/evaluations/data-for-research/, own calculations based on Categories of Intervention no. 5, 6, 9, 10, 11, 12, 13, 14, 15, 68, 70: €24 billion

⁷ <https://www.transportenvironment.org/what-we-do/eu-transport-spending/background>

⁸ http://ec.europa.eu/regional_policy/cs/policy/evaluations/data-for-research/, own calculations based on Categories of Intervention: €29.5 billion for roads against €14.4 billion for clean urban transport infrastructure and intelligent transport systems.

- The EU budget is bankrolling an intensive, industrialised farming system that is mainly based on high carbon and resource intensive technology. The current Common Agricultural Policy maintains an unfair system for farmers, a constant crisis on agricultural markets as well as inequitable exploitation of natural resources. It is also failing to deliver on animal welfare while posing longer term negative public health impacts. The sector contributes over 11% of total EU28 greenhouse gas emissions and 17.3% of the emissions in the non-ETS (Emission Trading Scheme) sector, and its emissions are projected to increase up to 2030 without further action⁹.
- The Instrument for Pre-Accession (IPA), supporting reforms in countries wishing to accede to the EU (Western Balkans and Turkey) is mainly used for technical assistance and capacity building. However, a portion of money goes into infrastructure and can end up supporting fossil fuel or other unsustainable projects, thus reinforcing carbon lock-in in these countries. The current financial framework for accession – IPA II – foresees investment of €11.7 billion for the period 2014-2020. So far, only 14% of that has been allocated towards climate action¹⁰.
- The European Neighbourhood Instrument (ENI) provides support for the countries in the EU's immediate neighborhood. It works in conjunction with the Neighbourhood Investment Facility (NIF), a mechanism aimed at mobilising additional funding to finance infrastructure projects in sectors such as transport, energy, environment and social development. In the period 2014-2020, €15.4 billion was set aside for the ENI. The ENI is not meeting the 20% target of climate funding: so far only 12,2% of this instrument has been allocated towards climate action¹¹.
- The EU's research programme Horizon 2020 has supported four shale gas research projects¹² with the aim to further encourage the exploitation of this type of 'unconventional' fossil fuels.

1. Making the EU budget compatible with the Paris Agreement

Increase the quality, volume and accountability of climate action spending

The EU adopted a 20% target for climate-related expenditure in the multiannual financial framework (MFF) for 2014-2020¹³. According to the European Commission, meeting this target requires the integration – or 'mainstreaming' – of climate action, both climate change mitigation and adaptation, into all areas of the EU budget. This means that the 20% climate action objective is to be met through incorporating climate action spending into policy areas and the corresponding funds of the EU budget. However, both the European Commission and the European Court of Auditors have found that the 20% climate spending target is at high risk of being missed¹⁴. Without taking further measures by 2020 the total climate change finance in the current EU budget would amount to €200.1 billion or 18.9%. But the Commission has not proposed concrete steps in this regard. The Commission should immediately develop action plans for the different funds on how to increase and improve climate spending.

In assessing the climate performance of the EU budget it is important to put the actual climate spending into perspective: more than half of the suggested climate action is accounted for as "climate change adaptation" within the direct payments to farmers and the rural development funding of the Common Agricultural Policy. Another 25% of the EU's climate action is attributed to investments into rail infrastructure.

This leaves a relatively small share of finance for the needed transformative investments into structural changes of the countries' economies.

According to the European Commission¹⁵, to reach the European Union's 2030 climate and energy targets, about EUR 379 billion investments are needed each year over the 2020-2030 period, whereas currently EU member states allocate on average only 7% of their Regional Development Funds (around €24 billion for the entire 7-years period) on renewables, energy efficiency and electricity interconnection and storage, the keystones of the clean energy transition.

⁹ EEA, 2016 Trends and Projections report, <http://www.eea.europa.eu/publications/trends-and-projections-in-europe>

¹⁰ European Commission (2016): Mid-term review/revision of the multiannual financial framework 2014-2020

¹¹ European Commission (2016): Mid-term review/revision of the multiannual financial framework 2014-2020

¹² <https://ec.europa.eu/inea/en/horizon-2020/h2020-energy/projects-by-field/shale-gas>

¹³ European Council Conclusions – 7/8 February 2013

¹⁴ <http://www.eea.europa.eu/en/Pages/DocItem.aspx?did=39853>, http://ec.europa.eu/budget/mff/lib/COM-2016-603/COM-2016-603_en.pdf

¹⁵ Second Report on the State of the Energy Union, COM(2017) 53 final, 1.2.2017

In addition, it is difficult to measure the extent to which the expenditure is contributing to the EU's broader climate objectives. 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 concretely. The European Commission should improve its so called 'climate action tracking' methodology to get a more realistic picture about the volume and actual impact of climate action spending of the EU budget. There needs to be more scrutiny about what is accounted for as climate change mitigation and adaptation.

The EU budget must also contribute significantly to meeting investment needs, especially in Europe's less developed regions whose public infrastructure investments largely depend on EU funds. The European Commission's centrally managed funds (e.g. the Connecting Europe Facility) should focus on electricity interconnection between countries and renewable energy deployment, while Regional Development Funding should massively increase resources for energy efficiency measures, renewable energy roll-out and SMART demand management. More emphasis on Technical Assistance and Project Development support will help to build a pipeline of clean energy projects: capacity-building, technical and project development assistance should guide beneficiaries and communities in implementing EU supported clean energy projects. The overall climate action target for the EU budget post-2020 should therefore be raised to 40%.

Both, the improvement of the climate tracking and the increase of climate action funding has been requested by the European Parliament in its resolution on the EU budget mid-term revision¹⁶ in July 2016.

The council is going even further: in its ECOFIN conclusions from March 2017¹⁷ European finance ministers recognize that climate mainstreaming is an appropriate tool to bring the EU budget in line with long-term objectives of the Paris agreement. The council *urges* Member States and the European Commission to immediately increase their climate action spending to fully exploit the climate action potentials of current spending programmes. The European Commission is tasked with developing proposals on how to further develop climate mainstreaming in the post-2020 EU budget.

It should take note of the assertions made by the European Parliament and Council and act on the key requirements that have been identified by both institutions: The need to further improve climate mainstreaming and a comprehensive review of the climate action tracking; and as a key part of a performance based budget, better impact and result indicators have to be implemented to enable more meaningful monitoring of the climate-related performance of the EU budget.

Climate proof the entire EU budget

Whereas the quantitative climate action target is a step in the right direction, the Paris Agreement requires all financial flows to be made consistent with zero carbon and clean energy development. This requires the EU to not only meet its climate specific spending target, but also that the whole EU budget has to be 100 % climate proof. A transparent and robust climate proofing assessment of project proposals submitted to the European Commission and on national and regional level should be implemented, including whether the projects will adequately contribute to achieving the 2030 and 2050 EU climate and energy objectives and to the efforts to reduce overall consumption of fossil fuels, including gas.

¹⁶ In its 'resolution of 6 July 2016 on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the Commission's proposal' the European Parliament requests "a possible increase of this [20% climate action] threshold in line with the EU's international commitments taken during the COP 21; calls on the Commission to ensure that the mechanism of climate action mainstreaming is fully operationalised and that the current method of tracking of such spending is improved;" <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2016-0309&language=EN&ring=A8-2016-0224>

¹⁷ http://www.consilium.europa.eu/register/en/content/out/?&typ=ENTRY&i=ADV&DOC_ID=ST-7495-2017-INIT, 21.3.2017

Two steps forward – one step backward on climate mainstreaming

While the European Commission currently pursues a purely quantitative approach towards climate mainstreaming, the actual ESIF legislation permits a wider, more strategic and qualitative concept: the Common Provision Regulation (CPR) for European Structural and Investment Funds (ESIF) requires that Member States and the Commission shall ensure that climate change mitigation and adaptation are integrated and promoted in the preparation and implementation of Member States' investment strategies (Partnership Agreements) and spending plans (Operational Programs). Furthermore, the Common Strategic Framework (CSF) (ANNEX 1 to the CPR) recommends to take a programme lifecycle approach, "to avoid or reduce environmentally harmful effects of interventions and ensure results in net social, environmental and climate benefits. Actions to be undertaken may include the following:

- directing investments towards the most resource-efficient and sustainable options,
- avoiding investments that may have a significant negative environmental or climate impact, and supporting actions to mitigate any remaining impacts,
- taking a long-term perspective when 'life-cycle' costs of alternative options for investment are compared".

Climate mainstreaming in the post-2020 EU budget should hence not be limited to a purely quantitative approach. Instead it should encompass the strategic integration of climate action in national investment planning and delivering on the long-term objectives of the Paris Agreement.

In consequence the Commission should immediately carry out a comprehensive, cross-sectorial study of the impact of funding granted from the EU budget on the mitigation of climate change.

For the post-2020 period, any EU funding which is not compatible with the greenhouse gas emissions reduction targets or clean energy policies of the EU should be discontinued. Every budget line and investment plan and programme should undergo a mandatory *ex-ante* climate compatibility check which applies to every new EU supported investment from 1 January 2020. The results of the assessments should be made public in a transparent and accessible way.

As current environmental assessment tools, in particular the Strategic Environmental Impact Assessment tools (SEA) are not appropriate to cover such a comprehensive climate impact assessment, 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.

Combine long-term greenhouse gas emission reductions and clean energy strategies with investment plans

The Paris Agreement requires the elaboration of "long-term low greenhouse gas emission development strategies". The European Commission has started to work on the development of such a strategy, building on the current '2050 roadmap'¹⁸. The necessary integration of financing and investment plans into EU's long-term decarbonisation strategies will create certainty for investors and thus opens the opportunity to increase ambition on greenhouse gas emission reductions, renewables and energy efficiency targets.

This level of integrated planning is enshrined in the EU's governance framework for 2030, where Member States have to develop their country's National Energy and Climate Plans for the period 2021-2030. The National Energy and Climate Plans (NECPs) must fit the EU's climate and energy targets and present a longer term vision. They also require Member States to report on financing measures taken at national level in various areas such as renewable energy, energy efficiency and connectivity, including EU support and the use of EU funds as such. This provision is crucial to go beyond business as usual and properly align investment needs for achieving the specific goals with financing commitments. The targeted use of EU funds to deliver on national and EU climate and energy targets will thus increase the European added value of EU financial support on national level.

- However, the integration of EU funding and climate and energy plans needs to move one step further as the new period for EU funds post-2020 goes in parallel with the 2021-2030 Energy Union framework. The decarbonisation objective that is enshrined in the Paris Agreement will require Member States to make investment decisions to ensure that they meet their long-term climate protection obligations and that they don't create stranded assets. These investment decisions should be guided by the National Energy and Climate Plans (NECPs) and longer-term strategies. The new EU budget should introduce an *ex-ante* conditionality which links allocation of EU funding to the respective level of climate ambition. EU co-financing rates should depend on the level of contribution to climate goals.

¹⁸ https://ec.europa.eu/clima/policies/strategies/2050_en; including a target of 80% GHG reduction by 2050.

Within the 2030 energy and climate governance framework the EU budget should function as an appropriate measure to ensure the achievement of overarching energy and climate targets, addressing inconsistencies and insufficient ambitions of national energy and climate plans. To this end a performance reserve should be created which incentivises increased climate and clean energy commitments in the national energy and climate plans.

2. Finance clean energy only

Put energy efficiency first, remove electricity interconnection bottlenecks and fully exploit the potential of renewable energy

To ensure climate action is entirely mainstreamed at all stages of EU budget planning and implementation, it is important to adequately assess how the deployment of funds can meet the full potential of renewable energy and energy efficiency in Member States. To this end, the Energy Efficiency First principle should be the guiding criterion for national investment strategies, investment plans and projects. Buildings for example account for 40% of total energy consumption and around 75% of them are energy inefficient¹⁹.

Energy efficiency in buildings suffers from underinvestment, underinvestment and generating further investment opportunities will have multiple benefits for energy consumers and economies overall. It will reduce energy consumption, reduce energy bills for consumers, reduce fossil fuel import dependency and will enable retiring fossil fuel generation capacity.

Financing for energy efficiency and demand side management measures in public buildings, private housing and small business should be expanded and ideally rebalanced to unlock the smaller scale finance opportunities. Any financial instrument for energy efficiency should be tailored towards the households' capacities to stem the investment costs, vulnerable consumers need special attention.

Combined with energy savings, the various renewable energy sources provide the only solution to bringing greenhouse gas emissions to zero in a relatively short timescale. The transition to 100% renewable energy systems by 2050 requires the mobilisation of public and private funding. The EU budget should thus fully exploit the potential of renewable energy. Existing EU funding programmes such as the Connecting Europe Facility (CEF) should be further developed and extended towards establishing a list of European Renewable Energy Projects of Common Interest, granting favorable financing and implementation conditions.

Support for biomass must ensure prevention of negative environmental and social impacts and guarantee that biomass is resource efficient. Funding for bioenergy should be subject to clear and strict conditions to guarantee that bioenergy is genuinely sustainable and low-carbon: it must not cause harm to biodiversity, soil, and water, and not negatively impact land use or undermine food security or human rights.

An integrated electricity market is one of the cornerstones of the Energy Union Framework Strategy. Electricity interconnections between countries and regions, and sufficient grid capacity to accommodate the ever increasing shares of variable renewable energy are needed to complete the common electricity market. They are also a prerequisite for the transition to a modern, clean energy economy. However, according to the European Commission²⁰, bottlenecks in electricity interconnection still exist due to missing or underused infrastructure. EU financing should therefore ensure that the EU will meet and go beyond its 15% electricity interconnection target for 2030.

Do not support fossil fuels

It is crucial that EU funded projects do not end up undermining the EU's overall climate ambition. Supporting fossil fuels exerts detrimental effects on the EU's climate objectives. The EU budget currently still finances fossil fuel projects, in particular new gas infrastructure, through the Connecting Europe Facility and Regional Development Funding. Nonetheless, various studies²¹ suggest that Europe's current gas infrastructure is largely sufficient to ensure 'energy security'. In addition, the environmentally harmful impacts of natural gas are largely misconceived, making gas no better than other fossil fuels due to its high rate of fugitive emissions along the production and consumption chain, methane's enormous Global Warming Potential and the environmental impact of its exploration.

¹⁹ Clean Energy For All Europeans, COM(2016) 860 final, Brussels, 30.11.2016

²⁰ https://ec.europa.eu/commission/priorities/second-report-state-energy-union_en

²¹ <http://www.caneurope.org/publications/reports-and-briefings/1309-briefing-eu-gas-infrastructure-and-efsi-time-for-change>

On this background any fossil fuel funding from the EU budget post-2020 should be prohibited. Investment in EU gas infrastructure is likely to represent bad value for money given the very limited need for new gas investment for security of supply, leading to an actual threat of ending up as stranded assets. There is no mechanism in place to test new gas infrastructure against EU climate and energy targets or a 1.5°C - scenario as required by the Paris Agreement. Gas investments also present an opportunity cost of not investing scarce EU public funds in other more productive areas, notably energy efficiency, renewable energies and smart electricity grids, in research, development, and innovation to ensure the optimal transition to a clean energy society.



FIGURE 3: PROPOSAL FOR ELIGIBLE INVESTMENTS WITHIN THE ENERGY UNION FRAMEWORK

Ending fossil fuel funding has been promoted by the European Commission in its '2nd state of the Energy Union report' from February 2017. Here the European Commission unambiguously announced a U-turn on financing energy infrastructure: avoid stranded assets and carbon lock-in, build the sustainable energy infrastructure for the future. *"In view of scarce resources in the Member States, public resources should be used smartly. Member States should make sure that their support to energy infrastructure in the widest sense is in line with the principles of the Energy Union. Support should only be given if in line with the long-term energy policy of the European Union, avoiding stranded assets and carbon lock-in."*²²

The European Commission is thereby committed to lead on the phase out of fossil fuel subsidies in Europe. The EU budget post-2020 should set a good example and make fossil fuels ineligible for EU funding. A fossil fuel ban from the EU budget excludes financing the retrofit and life-time extension of existing

fossil fuel based generation capacity and infrastructure, as well support for biomass in co-firing utilities based on coal, gas or oil. European innovation, research & development funding should focus on development and deployment of clean energy and zero emissions mobility solutions.

3. Improve climate action funding in forestry, agriculture, transport and industry

A Common Agricultural Policy that meets environmental objectives

A reform of the Common Agricultural Policy (CAP) is needed to ensure that farming practices are genuinely contributing to its core objectives: climate action and sustainable management of natural resources. Past payments as part of the "greening" objectives of the CAP have gone to crop monocultures and pesticide use, which do not encourage resilient ecosystems nor represent environmentally sustainable solutions. In the future, financing for agriculture initiatives needs to be aligned with the climate objectives as well as with the wider ecosystem benefits (e.g. biodiversity, water quality). Climate action in the land sector should balance both mitigation and adaptation objectives.

Financing low-carbon transport

Past and current EU funding in the transport sector has focused on large scale road and rail projects, airports and the transport links between Member States. Future transport funding should rather aim at turning cities and urban spaces into a sustainable environment, prioritising transport investment that increases electric mobility and better rural and urban planning. To justify transport funding, all applications for funding should be shown to sustainably decrease CO2 emissions. EU transport funding should also prioritise measures proposed in the European Commission's "low-emission mobility strategy", and have to be integrated into transport decarbonisation and GHG emission reduction plans.

²² https://ec.europa.eu/commission/priorities/second-report-state-energy-union_en

Industrial low-carbon innovation

EU research funding should aim at the development and deployment of clean energy and zero emissions mobility solutions, and the development and implementation of low-carbon strategies in industry to replace emission-intensive basic materials processes, e.g. for industrial gases, cement, steel or chemical production.

4. Increase resilience to climate change

Financing adaptation to climate change

The EU's current Strategy on Adaptation to Climate Change²³ seeks to monitor and evaluate Member State progress in implementing adaptation plans. The Strategy indicates that much more investment will be needed to adapt the EU's (and Member States') economies to climate change, and that key funds and policies need to better integrate adaptation needs in future planning and expenditure.

However, efforts to craft and implement national adaptation plans have been far too slow given the urgency of climate change impacts on sectors such as transport, buildings, infrastructure, agriculture and fisheries. At the same time, the lion's share of EU adaptation funding lies within the Common Agricultural Policy, creating doubts on the quality and effectiveness of adaptation measures currently being implemented.

The evaluation of the EU's strategy should seek to align the strategy with international objectives on adaptation, anchored in the Paris Agreement. Given the growing vulnerability to climate impacts of key European sectors, more financial support together with technological resources and well-informed regional and development planning will be needed to better prepare these sectors and regions for the unavoidable impacts of climate change. The next EU budget will be instrumental to make this happen.

Accelerate the people centered and just transition

EU funds are currently missing a strategic approach towards sustainable development of those EU regions with particular transformation challenges, e.g. mining regions. The current practice of using EU regional development funds as global budget support for government budgets is not providing for added EU value and EU funds are not working in synergy to support regions, communities and business that are heavily dependent on the extraction and production of high-carbon fuels.

A Just Transition of these regions is required²⁴. This needs Regional Development funding that is based on long-term sustainable development plans integrating social well-being and environmental integrity, and taking into account the transformative impact the clean energy transition has on people living and working in that region. The Court of Auditors has noted the untapped potential for the European Social Fund to contribute more to climate mitigation. In addition, improved synergies between different funding instruments can achieve a more systemic response to regional challenges. For example, the European Social Fund in supporting the retraining of coal miners should be linked to the Cohesion Fund or the Connecting Europe Facility for investing in renewable energy and housing renovation which can generate jobs for retrained workers. The affected communities should receive financial support for developing and implementing long-term strategies for economic diversification towards sustainable economic activities. In the affected regions strategic investments are needed to fill the void and address indirect impacts of the transition.

Supporting vulnerable households

The current EU budget is largely lacking in targeted programmes or requirements to address fuel poverty. EU funding instruments need to address the 50 million Europeans living in energy poverty²⁵ by providing for and implementing suitable clean energy solutions, insulating their homes or installing small-scale renewables. For example, expanding the scope and scale of the Fund for European Aid for the Most Deprived would also help Member States achieve their strengthened obligations to act on Energy Poverty under the revised Renewable Energy Directive.

²³ <http://ec.europa.eu/transparency/regdoc/rep/1/2013/EN/1-2013-216-EN-F1-1.Pdf>

²⁴ Just Transition is generally described by civil society as the transition towards a low-carbon and climate-resilient economy that highlights public policy needs and aims to maximize benefits and minimize hardships for workers and their communities in this transformation.

²⁵ Energy poverty is often defined as a situation where individuals or households are not able to adequately heat or provide other required energy services in their homes at affordable cost.

Community based energy projects and the central role of cities and regions

Community energy, understood as energy projects where citizens or municipalities own or participate in the production and/or use of renewable energies and integrated clean energy approaches, has an essential role in helping the EU achieve its climate and energy objectives. Giving communities the sovereignty over their own local sustainable energy production is helping to drive the development of local decentralised energy networks and contributing to public acceptance of the energy transition. It also enhances energy security and provides opportunities for the local economy. Decreasing the fossil fuel import bill, creating jobs, collecting tax and lease revenues are among the benefits for municipalities from local economic developments generated by the utilisation of renewable energies. Community energy also contributes to national and EU-wide efforts to meet and increase the EU's 2030 targets for renewable energy sources, energy savings and greenhouse gas emissions reductions.

A recent report by CE Delft²⁶ showed that over 112 million 'energy citizens' could meet 19 per cent of Europe's electricity demand by 2030, rising to as much as 45 per cent of the demand and over 264 million 'energy citizens' (half of all EU citizens) by 2050.

The European Commission is grasping the multiple benefits of community energy and thus has put consumers at the centre of the Energy Union: citizens will be entitled to generate electricity for either their own consumption, store it, share it or to sell it back to the market. However, citizens and communities are facing significant challenges when seeking and accessing financial support for their energy projects, particularly in competition with multinational utilities. The EU budget in consequence should take the increased role of consumers and communities into account and enable a custom fit financing mix for all three phases of a community energy project cycle. The mobilisation of local stakeholders should be supported by Community Led Local Development grants, followed by project development assistance to get the project running and an appropriate capital investment scheme to finance the actual installation.

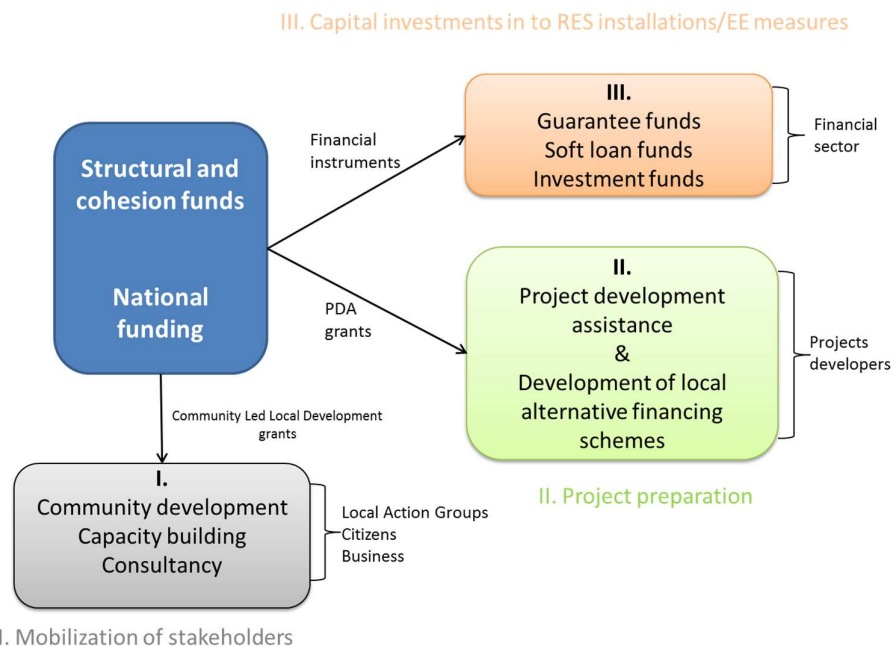


FIGURE 4: 3-PILLAR FINANCING MODEL FOR COMMUNITY ENERGY PROJECTS

Cities and regions play an important role when it comes to building community-driven, decentralised local energy ecosystems based on renewable energy sources. They are best placed to assess the potential of local renewable energy supply and demand reduction, they can foster cooperation between local energy companies and community associations and establish new partnerships to deliver on the clean energy transition. When it comes to EU budgetary planning process it is crucial that regions and cities lead on the development of local and

²⁶<http://www.greenpeace.org/eu-unit/Global/eu-unit/reports-briefings/2016/160926%20CE%20Delft%20-%20The%20potential%20of%20energy%20citizens%20in%20the%20EU.pdf>

regional strategies linked to EU funds spending plans while pursuing collaborative and participatory approach with citizens and stakeholders.

Expand the partnership in EU funding

The partnership principle in Cohesion Policy is supposed to provide for a comprehensive and early stage involvement of all stakeholders, i.e. local business, social partners and civil society, into planning, implementation, monitoring and evaluation of EU funds' investments. Such involvement and engagement can foster various benefits and added value such as enhancing collective commitment and ownership of the EU policies and investments, increasing knowledge and expertise in project design and selection especially for integrated local clean energy projects. It leads to efficient project implementation, as well as ensuring greater transparency in decision making processes and the prevention of fraud and misuse of taxpayers' money. Partnership strengthens democracy and a consensual policy culture, and supports the limited administrative capacity of public administration in this area. The assurance of more effective utilization of restricted public sources results in quality enhancement of supported projects and finally in the better absorption of funds. This partnership principle should be expanded to all EU budget spending programmes.

5. Funding outside the EU

Pre-accession and neighbourhood funding instruments for structural reforms and a fair energy transition

Climate mainstreaming, a climate proofing framework and long-term planning with regard to the Paris Agreement's long-term objectives should be equally applied to the EU pre-accession (IPA) and neighbourhood policy instruments (ENI). With this in mind, pre-accession and neighbourhood funding must not be channeled to any projects that drive countries further away from the EU's clean energy development or contradict the objectives of the Paris Agreement. The benchmark of 40% funding allocation for climate action – including an *ex-ante* climate compatibility check - needs to apply also on IPA III and future ENI. Projects increasing climate resilience of this already highly vulnerable region must be prioritised. Projects that support further carbon lock-in of the neighbouring regions, such as coal power plants retrofits or gas pipelines must not be part of the future funding.

In the next budget cycle, the European Commission needs to start tackling crucial structural questions that will enable a fair energy transition in the accession and neighbouring countries. This includes earmarking a portion of the funding for measures enabling coal mining regions to move away from this most-polluting fossil fuel, based on putting in place smart retiring plans. Such an approach, directed towards the most vulnerable parts of society, will also help communicate the benefits of EU accession to citizens of the region.

External Action needs to address climate change, poverty, population dynamics and inequality

The EU budget must be a purposeful tool to help deliver the EU's objectives as an international partner to third countries, in particular developing countries. EU funding through international development and support via its Global Climate Change Alliance should support partner countries in achieving their Nationally Determined Contributions, national adaptation plans and their commitments under the Paris Agreement. Meaningful long-term sustainable development requires consistent, transparent and predictable public support that will address the most pressing needs of people and communities that face multifaceted challenges posed by climate change, poverty, population dynamics and inequality. The post-2020 EU budget must ring-fence public support for actions and projects that reach the most vulnerable countries and communities; for example, capacity-building, climate change adaptation and small-scale renewable energy projects towards the achievement of the Sustainable Development Goals. The EU should embrace funding for nature-based solutions to climate change rather than for grey infrastructure, including the reduction of tropical deforestation and replantation of mangroves as natural shield for coastal areas. Furthermore, the EU should apply an integrated approach to countries and regions that deal simultaneously with effects of climate change and high and rapid population growth rates due to an unmet need for family planning, by integrating reproductive health and family planning in climate adaptation projects using a human rights based approach. More sustainable agriculture should also be a priority. EU support should aim to achieve a balance between actions for mitigation and for adaptation. EU budgetary support to partner countries should also be driven by local and national ownership in recipient countries, and involve local stakeholders in the instance of development projects and actions.

Transparency of EU support to climate action in partner countries is essential to gain trust and accountability regarding its own commitments towards the USD 100 billion a year by 2020 promised at COP 21 and the ongoing

support. Thus the EU should work collaboratively within the UNFCCC process to agree on a consistent and effective reporting methodology and use this in all EU and MS reporting.

The importance of a healthy environment, ecosystems and respect, protection and fulfillment of human rights for climate resilience should be an integral part of EU development cooperation implemented through the EU budget in order to ensure long term sustainability.

Noting the growing role of private sector activity in development cooperation and climate action, it is paramount that such activity in particular - and not only where leveraged through EU funding - remains supplementary to public support. The existing standards and development criteria of the EU budget should apply to the role of private sector engagement in sustainable development, particularly transparency and accountability.

6. Greening the EU budget's Own Resources

The EU budgets 'Own Resources' should be reformed to become a climate action tool in itself which can deliver on EU climate policies. To that end it can address fiscal distortions that favour fossil fuel-powered economies on national level. For example a carbon tax established alongside the EU Emission Trading System (ETS) could replace member states current contributions to the EU budget.

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Contact:

Maeve Mc Lynn: maeve@caneurope.org, Policy Coordinator Finance and Subsidies

Markus Trilling: markus@caneurope.org, Policy Coordinator Finance and Subsidies