

# Paris-proofing the next Multiannual Financial Framework

**Marco Giuli**

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# List of acronyms

**BECCS:** bio-energy carbon capture and storage  
**CAP:** Common Agricultural Policy  
**CCS:** carbon capture and storage  
**CEF:** Connecting Europe Facility  
**CF:** Cohesion Fund  
**COSME:** Programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises  
**CP:** cohesion policy  
**CPR:** Common Provisions Regulation  
**CSR:** country-specific recommendation  
**DCI:** Development Cooperation Instrument  
**EAFRD:** European Agricultural Fund for Rural Development  
**EAGF:** European Agricultural Guarantee Fund  
**ECA:** European Court of Auditors  
**EED:** Energy Efficiency Directive  
**EFSI:** European Fund for Strategic Investments  
**EIB:** European Investment Bank  
**EMFF:** European Maritime and Fisheries Fund  
**EPBD:** Energy Performance of Buildings Directive  
**ERDF:** European Regional Development Fund  
**ESF:** European Social Fund  
**ESIF:** European Structural and Investment Funds  
**ESR:** Effort Sharing Regulation  
**ETS:** emissions trading system  
**EU:** European Union  
**GHG:** greenhouse gas  
**GNI:** gross national income  
**H2020:** Horizon 2020  
**ICT:** information and communications technology  
**INDC:** Intended Nationally Determined Contribution  
**IPA:** Instrument for Pre-Accession Assistance  
**IPCC:** Intergovernmental Panel on Climate Change  
**ITER:** International Thermonuclear Experimental Reactor  
**LIFE:** EU Programme for the Environment and Climate Action  
**LNG:** liquefied natural gas  
**MFF:** Multiannual Financial Framework  
**NECP:** National Energy and Climate Plan  
**OECD:** Organisation for Economic Co-operation and Development  
**OP:** Operational Programme  
**PA:** Partnership Agreement  
**RED:** Renewable Energy Directive  
**RES:** renewable energy sources  
**R&D:** research and development  
**SME:** small- and medium-sized enterprises  
**TO:** Thematic Objective  
**UN:** United Nations

# Executive summary

A carbon neutral future, as envisioned by the European Commission in its recent communication A Clean Planet for all, would require unprecedented changes to the European Union's (EU) economy and society. The next Multiannual Financial Framework (MFF) for the 2021-2027 cycle, which is currently under negotiation, has an important role to play: overall, the EU budget supports regional development and research in areas that are critical in achieving climate goals, including transport, energy and agriculture. Investments in the next fiscal cycle will have an impact on Europe's level of greenhouse gas emissions in the medium to long term. The next budget must, therefore, demonstrate its full potential to contribute to the EU's climate commitments, signalling the credibility of the EU's climate pledges to both private investors and global partners.

The climate performance of the current budget cycle provides important lessons for the next round. While it served as an important signal for private investors, adopted some effective governance mechanisms and provided incentives for member states to implement EU climate-related legislation, its climate contribution shows room for improvement. Some of the factors that have undermined climate efforts include a lack of uniformity in the legal bases of the different funds and tracking methodologies, insufficient implementation of conditionalities regarding disbursements, and continued support for practices that are harmful to the climate, specifically in the agricultural and energy sectors.

The MFF proposal issued by the European Commission in 2018 introduced several innovations concerning climate spending. These include increasing the climate mainstreaming target from 20 to 25%, excluding support for fossil fuels under the cohesion policy, establishing links between the MFF and the national energy and climate plans (NECPs) to achieve the 2030 climate targets

set by the Paris Agreement, a greater push for energy efficiency and more ambitious climate targets for some EU funds.

Yet, the structure and governance of the budget remain almost unchanged. All in all, there is a risk that the new MFF will turn into a missed opportunity regarding climate action. This is especially worrying in light of the fact that the next budget cycle will cover the bulk of the promising yet trying period leading up to the 2030 climate targets deadline. Furthermore, investments approved within the next decade will have an impact on the EU's ability to achieve its own 2050 climate ambitions.

In order to defuse this risk, this Discussion Paper recommends member states to:

- ▶ adjust the tracking methodology for climate expenditure by introducing a uniform system across the budget instead of its current scattered approaches, to avoid inconsistencies in and overestimations of the budget's contribution to climate action;
- ▶ exclude the support for fossil fuel investment across the whole budget;
- ▶ adopt a clear definition of 'climate proofing' across the whole budget, to ensure that the portion of the MFF lying outside of the climate mainstreaming target does not support climate-harmful practices;
- ▶ ensure full strategic alignment between the MFF and NECPs and employ the former as an instrument to reward the level of ambition and/or performance of the member states, in order to make the most of the instruments created during the 2014-2019 EU political cycle.

## Introduction

From wildfires to draughts, floods to mounting desertification, the effects of climate change are already impacting the lives of the European Union's (EU) citizens and causing significant economic, societal and environmental costs. In addition, the effects of climate change in the Union's southern neighbourhood are already triggering human displacement, further enhancing the issues of insecurity and conflict, which are reverberating on European immigration. It is now clear that climate change presents a multidimensional risk to the EU and all of its citizens.

To mitigate global warming, the EU has committed to reduce its greenhouse gas (GHG) emissions by 40%, expand the share of renewable energy to 32% and

increase energy efficiency by 32.5%, all by 2030.<sup>1</sup> In addition, the European Commission's communication A Clean Planet for all, issued in November 2018, calls for achieving carbon neutrality by 2050.<sup>2</sup> These efforts respond to the EU's multilateral commitment to contribute to limiting the increase of global temperatures to 2°C above pre-industrial level, and as close as possible to 1.5°C – a target foreseen by the 2015 Paris Agreement.<sup>3</sup>

While technological innovation and behavioural change can reduce the overall cost of the transition, the unprecedented magnitude and pace of transformation imply that policies remain indispensable in achieving the targets. Investments need to be made across the whole economy, from supporting renewables to reducing

energy demand; from improving electricity storage and transmission capacity to reducing agricultural and industrial emissions (not to mention natural and potentially artificial carbon withdrawal). In addition, the EU and its member states should also ensure that the gains and losses of the transition to a decarbonised economy are fairly distributed in order to minimise political backlashes.

The EU budget is an investment instrument that impacts energy and transport infrastructure, agriculture, research and innovation, and regional development. It thus plays a central role in the EU's transition to a decarbonised economy. That is why the EU has mainstreamed climate objectives across the Multiannual Financial Framework's (MFF) different programmes.

The mounting urgency of climate action, the EU's commitment to the Paris objectives and its own long-term climate and energy targets, and the growing political momentum for climate action – as demonstrated especially in Northwest Europe by the #FridaysForFuture

strikes and Green parties' success in the 2019 European Parliament elections – have substantially changed the environment in which the new EU budget is being discussed. The European Commission has proposed, among several other policy innovations, to raise its climate mainstreaming target from 20 to 25%, thereby increasing the budget contribution for climate from €206 to €320 billion over the budget period.<sup>4</sup>

As the discussion of the next EU budget is still ongoing, this Discussion Paper aims to suggest various ways in which member states can make the next MFF an effective instrument to achieve the current EU's climate ambitions. First, the Paper will pinpoint the lessons the current budget cycle has provided for climate mainstreaming as well as identify the gaps in the current policy and implementation. Second, it will outline the major changes occurring in the current political and policy framework, which should inform the discussion on the upcoming budget. Finally, it will suggest options to ensure coherence, define incentives and boost the leverage of the MFF to achieve climate objectives.

## 1. Climate mainstreaming in the EU budget: The 2014-2020 cycle

Exploring the climate dimension of the current 2014-2020 budget cycle provides valuable lessons when considering a future where the budget would have to support more ambitious climate targets. The EU agreed to reduce its GHG emissions by 20% with respect to its 1990 levels by 2020, increase the share of renewable energy sources (RES) in its final energy consumption to 20%, and achieve a 20% increase in energy efficiency with respect to 'business-as-usual' policies in its 2020 climate and energy package.<sup>5</sup> In order to support the related investment needs, the EU agreed that at least 20% of the budget for 2014-2020 – approximately €206 billion – would be dedicated to climate action across the wide spectrum of EU funds,<sup>6</sup> tripling the climate-related expenditure share of the 2007-2013 budget cycle. This approach of integrating climate objectives into existing policy instruments is commonly referred to as 'climate mainstreaming'.

### 1.1 HOW CLIMATE MAINSTREAMING WAS APPLIED TO THE 2014-2020 BUDGET

The integration of climate policy into the current EU budget relied upon the following instruments:

- ▶ The **20% target** for climate mitigation and adaptation expenditure, applied across the whole budget. This target reflects a political commitment to the amount of money dedicated to the climate.
- ▶ A **tracking methodology** of climate-related expenditure, which assigns three different markers to contributions ('insignificant', 'moderate', 'significant')<sup>7</sup>

to climate change objectives, based on a methodology borrowed from the Organisation for Economic and Co-operation and Development (OECD).

- ▶ The **Common Provisions Regulation (CPR)**,<sup>8</sup> which defines the governance of climate mainstreaming in the five European Structural and Investment Funds (ESIF) that fall under shared management between the EU and its member states.<sup>9</sup> The key governance instruments foreseen by the CPR are the Partnership Agreements (PAs), which require member states to devise the intended use of ESIF over the cycle and therefore indicate the extent to which investment will support climate mitigation and adaptation.<sup>10</sup> The CPR also introduces ex ante conditionalities for the thematic objectives of ESIF, which state that member states must ensure that investments made under the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) support climate action.<sup>11</sup>
- ▶ **Climate proofing**, which (in the context of this Discussion Paper) refers to the guarantee that EU public expenditure is consistent with its medium- and long-term climate targets.<sup>12</sup> Climate proofing applies to projects worth more than €50 million, and are thus funded by the ERDF and CF. A cost-benefit analysis includes a carbon footprint evaluation methodology, which is based on that of the European Investment Bank (EIB),<sup>13</sup> and a vulnerability and risk assessment.
- ▶ **Public procurement** also supports climate mainstreaming within the framework of ESIF. Since 2014, award criteria have been developed to grant

contracting authorities to select the best value for money rather than the lowest bid, allowing for the possibility to include the cost of GHG emissions or energy into the overall costs.<sup>14</sup>

In addition to these horizontal measures, defining policy priorities in specific programmes includes climate-related expenditure targets for both funds and implementation instruments. The research programme Horizon 2020 (H2020) is committed to a 35% spending minimum on climate objectives. Operational Programmes (OPs) under the ERDF are subject to minimum earmarking

levels for low carbon investments based on GDP per capita (20%, 15% and 12%).<sup>15</sup> 25% of the funds of the Global Public Goods and Challenges programme, under the Development Cooperation Instrument (DCI), is earmarked for climate change and environment. 30% of the European Agricultural Fund for Rural Development (EAFRD) is the minimum spending requirement on environment and climate measures.<sup>16</sup> Table 1 and Figure 1 show the allocation of climate expenditure across the current budget, revealing the dominant role of agriculture-related funds and regional development expenditure in the MFF's climate-related allocations.

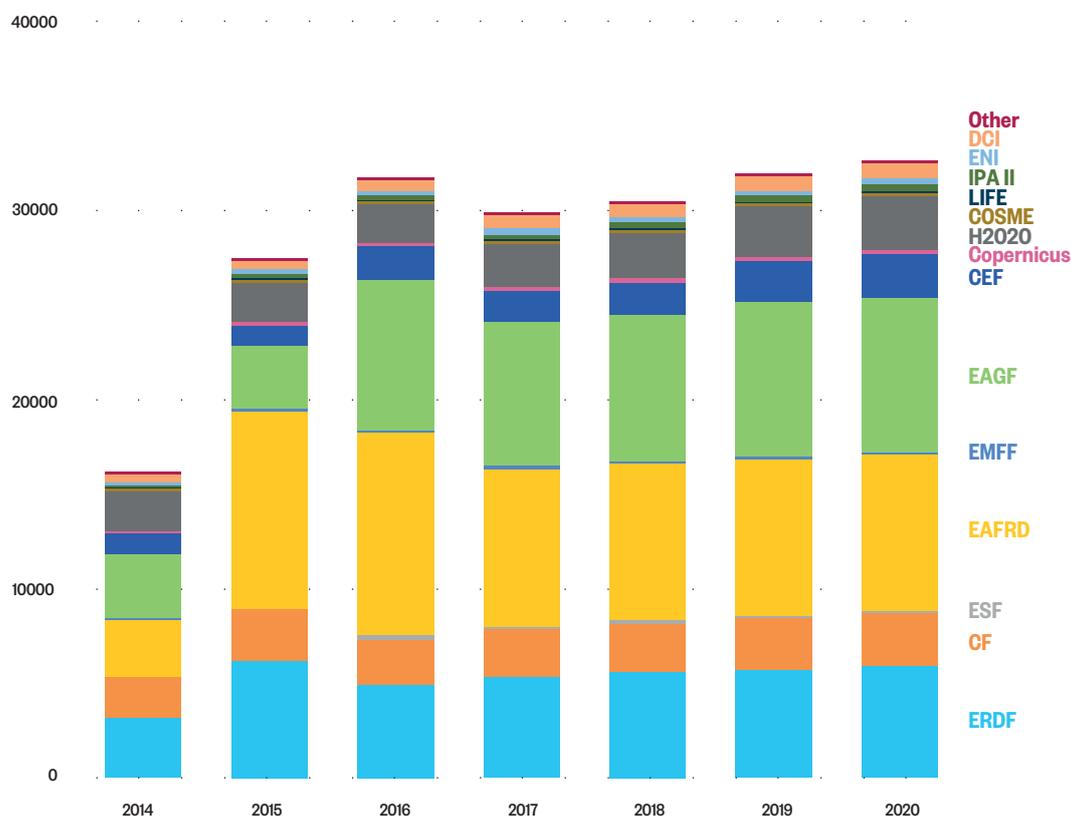
**Table 1: Climate funding targets by EU funds (2014-2020)**

Budget area	Planned expenditure (€bn)	Planned climate funding target (%)	Planned climate funding (€bn)
Horizon 2020 (H2020)	74.9	35	16.6
Cohesion Fund (CF)	63.3	28.4	18
European Social Fund (ESF)	91.4	1.2	1.1
European Regional Development Fund (ERDF)	200.3	18.5	37
European Agricultural Guarantee Fund (EAGF) (direct payments)	288	16.3	47
European Agricultural Fund for Rural Development (EAFRD)	99.5	57.5	57.2
European Maritime and Fisheries Fund (EMFF)	6.4	15.6	1
Programme for the Environment and Climate Action (LIFE)	3.5	49.3	1.6
MFF	1062.6	20	212.5

Source: European Court of Auditors (2016)<sup>17</sup>

**Fig. 1**

**CLIMATE ACTION BY FUNDS 2014-2020 (€MN)**



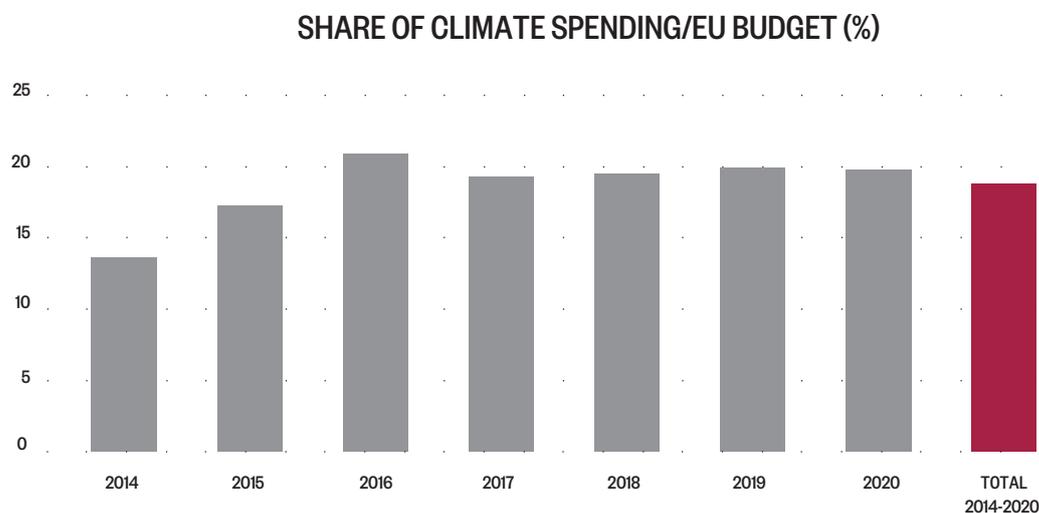
Source: European Parliament (2018)<sup>18</sup>

## 1.2 THE CLIMATE CONTRIBUTION OF THE 2014-2020 BUDGET CYCLE

Despite a risk of missing the target for climate action by 1.2 percentage points (Figure 2), climate mainstreaming during the 2014-2020 cycle has already led to benefits for the climate.

Firstly, the mainstreaming target has sent an important **signal** to all funding programmes and a message to private investors about the EU commitment to decarbonisation and its will to use its financial means to support it.

Fig. 2



Source: European Court of Auditors (2016)<sup>19</sup>

Secondly, the CF and ERDF appear to have performed well in terms of climate mainstreaming in comparison with the previous budget cycle, notably as a result of sophisticated **governance** instruments such as PAs and climate-related thematic objectives (Table 2).<sup>20</sup> A European Parliament-funded study found that PAs were effective in highlighting climate objectives, especially in Central and Eastern European countries where ESIF comprise a large proportion of total public expenditure.<sup>21</sup>

Thirdly, ex ante **conditionality** has played a relevant role in accelerating the implementation of the EU climate *acquis*<sup>25</sup> and helped to identify situations where compliance preconditions were not met from the onset of the programming cycle, thereby encouraging member states to take measures to correct the course.<sup>24</sup>

Yet, several shortcomings concerning climate effectiveness can be identified, thus suggesting room for improvement.

**Table 2: ESIF climate support by thematic objectives**

Fund	Thematic objective	Description	Share of ESIF climate support
EAFRD, ERDF	1	Strengthening research, technological development and innovation	1.5%
EAFRD, ERDF	2	Enhancing access to and the use and quality of information and communications technologies (ICTs)	0%
EAFRD, ERDF, EMFF	3	Enhancing competitiveness of small- and medium-sized enterprises (SMEs)	0.7%
EAFRD, ERDF, CF, EMFF	4	Supporting the shift towards a low carbon economy in all sectors	34.3%
EAFRD, ERDF, CF	5	Promoting climate change adaptation, risk prevention and management	6.5%
EAFRD, ERDF, CF, EMFF	6	Preserving and protecting the environment and promoting resource efficiency	42.4%
EAFRD, ERDF, CF	7	Promoting sustainable transport and removing bottlenecks in key networks and infrastructures	9.7%
EAFRD, ERDF, ESF, EMFF	8	Promoting sustainable development and employment quality, and supporting labour mobility	
EAFRD, ERDF, ESF	9	Promoting social inclusion, combating poverty and any discrimination	4.8%
EAFRD, ERDF, ESF	10	Investing in education, training and vocational training for skills and lifelong learning	
EAFRD, ERDF, CF, ESF	11	Enhancing the institutional capacity of public authorities and stakeholders and efficient public administration	0.1%

Source: European Commission<sup>22</sup>

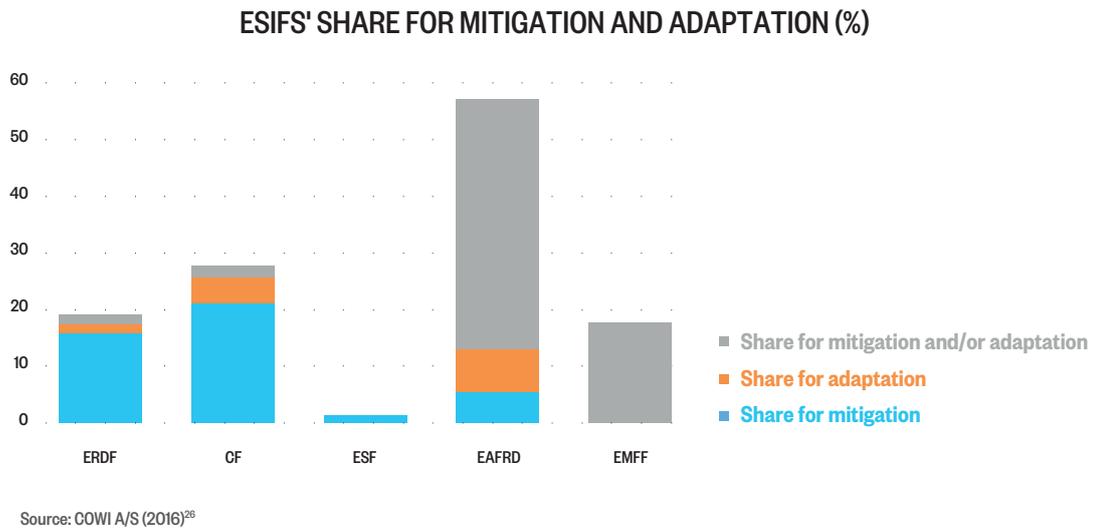
### 1.3 THE CLIMATE ACTION SHORTCOMINGS OF THE 2014-2020 BUDGET CYCLE

Climate-related shortcomings are present in both the 20% of the budget that is dedicated to climate action and the potential negative climate impact of the remaining 80%. These include:

► **The support for climate-harmful practices in energy investment.** An important amount of EU resources has been allocated to funding fossil fuel-related projects. Under the ERDF, €930 million have been allocated to natural gas transport and storage infrastructures. The Connecting Europe Facility

(CEF) has allocated €1.11 billion to studies and works on natural gas interconnectors; while in 2015, €11.5 million were allocated under H2020 towards research on shale gas.<sup>25</sup> Of course, it is worth noting that should gas investments be directly purposed to phase out coal, their implementation would actually lower emissions. In addition, it cannot be overlooked that gas investments are mostly directed towards enhancing connectivity in Central and Eastern Europe, therefore responding to EU’s energy security and market integration priorities which feature prominently in the Energy Union. However, it is extremely difficult to establish a direct connection between EU-supported gas infrastructure and the reductions in coal demand.

Fig. 3



**The support for climate-harmful practices in agriculture investment.** Agriculture-related expenditure is another source of controversy regarding its effects on the climate. The sector accounts for more than 11% of EU GHG emissions and 17.3% of non-ETS (emissions trading system) GHG emissions, and these numbers are projected to grow.<sup>27</sup> Contrary to energy and industrial processes and waste management, EU agriculture’s GHG emissions have been constantly on the rise since 2010, accounting for a 2.4% increase between 2010 and 2016.<sup>28</sup> Despite a clear rationale for investment in climate mitigation in this sector, the current budget does not seem particularly helpful. Despite being decoupled from livestock production, income support contributes to climate-harmful activities. As for the money specifically allocated to the climate, it appears to be mostly dedicated to climate adaptation<sup>29</sup> (Figure 3), while the sector lags in terms of contribution to mitigation. This points to a problematic lack of separation between mitigation and adaptation in the climate mainstreaming target, which frequently determines misallocations. As for green direct payments or “greening” under the European Agricultural Guarantee Fund (EAGF)<sup>30</sup> – which are dedicated to actions relevant to climate mitigation such as grassland maintenance – member states’ efforts to minimise administrative costs, preference

for legal compliance over outcomes, risk aversion, and agriculture ministries’ failure to claim ownership of climate issues have undermined ambition.<sup>31</sup> This was also enabled by the flexibility of the Common Agricultural Policy (CAP) guarantees to member states in terms of the design and implementation of measures. As a result, the European Court of Auditors (ECA) found that in five member states,<sup>32</sup> only 5% of greening measures in the direct payments pillar had a positive impact on the climate and the environment, while the programme fundamentally remains an income support scheme.<sup>33</sup>

- **A lack of coordination.** The effectiveness of climate mainstreaming has been held back by the absence of a coordination mechanism to determine which funding instrument could contribute to climate mainstreaming. This is because funding instruments are established under different legal bases, policy objectives and implementation mechanisms, and different policy communities play a role in the design, programming and implementation processes.<sup>34</sup>
- **A weak tracking methodology,** which translates into an overestimation of the amounts dedicated to climate action. In particular, the full tracking marker – identifying disbursement that accounts towards the

climate mainstreaming target 100% – is attributed to measures contributing ‘significantly’ to climate change mitigation or adaptation, even when the climate is not the primary objective of the measure. This is notable in comparison to the OECD’s climate tracking methodology, which only attributes the 100% marker to measures fully and specifically targeted at climate. The EU budget automatically raises the number of cases where the highest coefficient is used and determines an overestimation of the climate contribution of many disbursements.<sup>35</sup>

- ▶ **The lack of enforcement in the conditionalities.** The governance process associated with ex ante conditionalities has suffered from institutional mismatching. Conditionalities have fallen first and foremost under the responsibility of the services managing the funds (i.e. the Directorate-General (DG) for Regional and Urban Policy or DG for Agriculture and Rural Development), with limited to no role for the DGs responsible for climate and energy. In addition, enforcement remains a challenge. The ECA noticed that the Commission decided to not suspend any payment to OPs despite evidence of their non-fulfilment of ex ante conditions in a majority of cases.<sup>36</sup>
- ▶ **The insufficient exploitation of public procurement potential.** The fundamental risk aversion and lack of administrative capacity of procurers have weakened the climate mitigation potential of public procurement calls.<sup>37</sup> Despite the guidance provided by the Green Public Procurement criteria issued by the European Commission<sup>38</sup> and the public procurement reforms of 2014, contracting authorities seem reluctant to embed climate considerations in calls, notably for fear

of legal appeals. It is worth noting that the proportion of procedures awarded only on the basis of the lowest prices has been on the rise between 2015 and 2017 in 16 member states out of 28.<sup>39</sup>

- ▶ **The insufficient exploitation of the potential of specific funds.** The identification of the climate as a policy priority is uneven and inconsistent across the budget instruments centrally managed by the Commission, such as the Programme for the Competitiveness of Small and Medium-Sized Enterprises (COSME) and CEF. This diminishes the impact of climate mainstreaming in funds that have significant climate-related potential. This is especially the case with COSME, which could support investment in energy efficiency improvements made by small enterprises to a greater extent. Meanwhile, the climate potential of interconnections in energy or interoperability in transport is underemphasised in the CEF.<sup>40</sup> This uneven contribution of different funds is mostly due to the fact that funds managed by multiple authorities rely upon detailed rules for climate mainstreaming as defined by the CPR, thus ensuring strategic and coherent application. A different picture emerges however when it comes to centrally managed funds: decision-making in this context is mainly responsive to “the extent to which the stakeholder and policymaking community in the relevant sector cares about climate issues.”<sup>41</sup>

In light of these identified areas for improvements and the new commitments and instruments adopted by the EU during the preceding political cycle, the next section will evaluate the policy improvements and shortcomings of the next MFF proposal for the climate.

## 2. Between two budgets: The Paris Agreement and the EU’s legislative overhaul

In the last years, significant changes have occurred in the climate policy framework, at both the international and EU levels. At the international level, the Paris Agreement was signed in 2015. In the meantime, the EU adopted its own climate policy targets for 2030 and underwent a legislative upgrade in order to meet them. Finally, in November 2018, the European Commission launched a vision towards achieving carbon neutrality by mid-century. However, has the required level of change been sufficiently integrated into the current discussion on the next MFF, in light of the fact that this is the budget that will lead the EU towards the 2030 deadline?

### 2.1 THE PARIS AGREEMENT

The EU and its member states support the Agreement reached at the 2015 United Nations Climate Change Conference (UN COP21). The bloc brought to the conference an Intended Nationally Determined

Contribution (INDC) which foresees an emission reduction target of 40% by 2030 compared to 2005 levels.<sup>42</sup> The Union’s commitment was diplomatically instrumental in achieving a multilateral commitment to keep global warming “well below 2°C above pre-industrial levels”, to limit the increase in global temperature to 1.5°C and to reach a state of balance between emissions and removals in the second half of the 21<sup>st</sup> century.<sup>43</sup>

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**EU member states should realise that the next budget will be seen by international partners as a proxy to test the value of the EU’s climate commitments.**

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This Paris objective implies a significant upscale of climate-related spending worldwide. Just looking at energy systems alone, a recent research article estimates that investment in low-carbon energy and energy efficiency will need to overtake investments in fossil fuels by 2025 at the latest. To stay within the 2°C scenario, the world will need to invest \$2.13 to \$4.09 trillion in energy systems yearly between 2016 and 2050 (2.4 to 4.6% of global GDP), or \$2.36 to \$4.68 trillion per year (2.5 to 5.3% of global GDP) in the case of a 1.5°C scenario.<sup>44</sup> The UN's Intergovernmental Panel on Climate Change (IPCC) estimates that the conversion of energy systems alone requires an average annual investment of around \$2.4 trillion between 2016 and 2035, representing about 2.5% of the world GDP.<sup>45</sup>

Although the multilateral diplomatic process that followed the Paris Agreement has been affected by an unstable international political environment – epitomised by the US' withdrawal from the Agreement under President Donald Trump; Chinese ambiguity, especially in terms of the climate impact of its assertive external investment policy; and Brazil's climate change scepticism following the election of President Jair Bolsonaro –, its adoption provides a clear signal for the long-term direction. **The consolidation of climate multilateralism is essential to the EU's interests.** However, the Union's relative decline in the geography of emissions (10.2% of global emissions in 2018, as opposed to 15% in 1990)<sup>46</sup> risks turning the EU into a decreasingly relevant actor in multilateral climate diplomacy. As the EU tries to counter such a declining influence through a 'leading by example' approach – by showing unparalleled ambition in long-term emissions reduction (so far) – its member states should realise that the next budget will be seen by international partners as a proxy to test the value of the EU's climate commitments.

## 2.2 PREPARING FOR 2030: NEW TOOLS

To implement the aspirations included in the INDC, the EU has carried out a vast legislative upgrade to its climate policy framework as of 2015. The climate targets for 2030 were set to a 40% reduction of emissions, a 32% share of the final energy consumption comprising of RES, and a 32.5% improvement in energy savings.<sup>47</sup>

On the basis of an encompassing Energy Union concept – one of the political priorities of the Juncker Commission – the EU has revised its ETS Directive,<sup>48</sup> Renewable Energy Directive (RED),<sup>49</sup> Energy Efficiency Directive (EED),<sup>50</sup> Energy Performance of Buildings Directive (EPBD),<sup>51</sup> and electricity market design by way of a regulation and a directive. The Effort Sharing Regulation (ESR) was also updated to attain by 2030 a level of emission reduction of 30% in regard to their 2005 levels in sectors not covered by the ETS.<sup>52</sup>

To ensure that the member states are collectively reaching the binding targets, the Commission has adopted a governance regulation to streamline and simplify national planning requirements that will then be developed into comprehensive National Energy and Climate Plans (NECPs). Member states will have to

develop NECPs on a ten-year rolling basis, with an update halfway through the implementation period. The NECPs covering the first period from 2021 to 2030 must ensure that the Union's 2030 targets are achieved, compelling member states to state their investment needs and the financial measures they intend to put in place to secure their individual contribution towards the collective target. The governance regulation foresees an iterative process whereby the Commission evaluates NECP ambitions and issues recommendations if and when member states' efforts are deemed insufficient. NECPs must ensure that the minimum collective ambition level is met, although member states are allowed to design more ambitious plans.

## 2.3 A VISION FOR 2050

On November 2018, the European Commission issued the communication A Clean Planet for all, which revises the original emission reduction target of 80% by mid-century, towards an objective of carbon neutrality.<sup>53</sup> This would require the EU to adopt a transformative approach, which is only possible if member states are committed – which is far from certain, considering that in June 2019 four member states refused to endorse the climate neutrality principle – and a number of EU policies are reconsidered, notably those related to investing.

The document released by the Commission elaborates several scenarios,<sup>54</sup> with two out of ten being compatible to keep the global rise in temperatures within a 1.5°C difference. The Commission estimates the investment needed for all these scenarios and identifies an annual investment gap of €289.5 billion and €175.7 billion for the two scenarios heading towards a 100% emission reduction between 2031 and 2050.

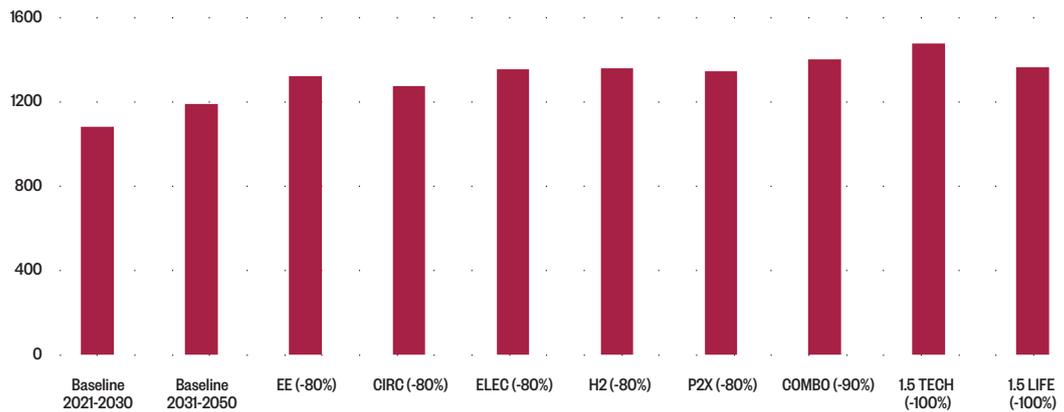
Considering the magnitude of the challenge and the new instruments at the EU's disposal, such as the Governance of the Energy Union Regulation, **a twofold question** arises with regards to the EU proposal for the next budget cycle: **is the MFF fit for Paris, and does it strategically interact with the new governance and regulatory instruments at hand for the next decade?**

## 2.4 A BUDGET PROPOSAL FOR THE NEW PRIORITIES

Against this background, member states have started to discuss the European Commission's budget proposal for the 2021-2027 cycle, which was presented in the communication A Modern Budget for a Union that Protects, Empowers, and Defends: The Multiannual Financial Framework for 2021-2027.<sup>56</sup> **The proposal introduces several innovative developments; however, the proposed budget sees no dramatic change made to its size, structure nor governance.**

Overall, the budget size remains almost unchanged in terms of its gross national income (GNI) portion, with a mere 0.02 percentage point decrease in respect to the previous cycle. Of the six political priorities, "Natural Resources and Environment" absorbs €378.9 billion,

### 2050 STRATEGY - AVERAGE ANNUAL INVESTMENT BY SCENARIO (€BN, 2013)



Source: European Commission (2018c)<sup>55</sup>

which is to be shared between the Agriculture and Maritime Policy, and Environment and Climate Action. The climate mainstreaming target was raised from 20 to 25% to provide €320 billion in funding, thus accounting for a rise of €114 billion compared to the past cycle (see Table 3 concerning the individual funds' aspirational targets). With €16.2 billion of additional annual expenditure for climate mainstreaming, the budget proposal accounts for about 9% of the foreseen €180 billion investment gap identified for the early formulation of the 2030 targets.<sup>57</sup> In terms of funding, the proposal foresees higher national co-financing rates, compensated by a more prominent role of InvestEU<sup>58</sup> as a leverage for additional private funding.

#### A twofold question arises with regards to the EU proposal for the next budget cycle: is the MFF fit for Paris, and does it strategically interact with the new governance and regulatory instruments at hand for the next decade?

In terms of structure and governance, the proposed MFF remains broadly identical as PAs and OPs remain the key instruments – although Thematic Objectives (TOs) are reduced from 11 to 5.<sup>59</sup> Ex ante conditionalities – replaced by “enabling conditions” – include the promise of improved monitoring, although they still mostly focus on compliance with the EU *acquis*. Elements of strategic planning are introduced in the CAP, as member states will be required to define their funding needs in relation to the overall political objectives. In the CP, the CPR proposal requires member states to consider country-specific recommendations (CSRs) when defining PAs and OPs.

Finally, the proposal suggests diverting 20% of ETS revenue to finance its own “correction mechanisms”.<sup>60</sup>

#### 2.5 THE POSITIVE INNOVATIONS OF THE NEXT BUDGET PROPOSAL FOR CLIMATE

In the CP, the list of thematic enabling conditions **excludes** the production, processing, distribution, storage and combustion of **fossil fuels from ESIF funding**, although it leaves the door open to transmission.<sup>61</sup> This is a welcome step towards proper climate proofing, and it partially addresses one of the main points of criticism against the current budget cycle from a climate perspective.

In terms of governance, **a linkage between the MFF and the new instrument of NECPs** foreseen in the Governance of the Energy Union Regulation **is mentioned**. Similarly to CSRs, member states will need to take into account their draft NECPs and recommendations from the Commission in response to said drafts.<sup>62</sup> In addition, the enabling conditions for disbursement under ERDF and CF require the adoption of NECPs by member states and the correct fulfilment of the related templates.

The CEF foresees a target of 60% of funds being contributed to climate objectives, with 10% ring-fenced for cross-border RES projects.<sup>63</sup> This is expected to provide important elements of clarity to investors. Also, it specifically includes cybersecurity as an area of spending that would count as contributing to the security of supply. This is also a welcome step, as it signals the recognition of emerging electrification-specific energy security issues.<sup>64</sup>

**Energy efficiency seems to be adequately prioritised as an element of conditionality** that is beneficial in improving housing investment under the CP.<sup>65</sup> This is in line with the “efficiency first” principle that underpins the Energy Union and is a positive recognition of the potential of energy efficiency to address the distributional

effects of the energy transition, as investing in energy efficiency addresses one of the structural drivers of energy poverty.<sup>66</sup>

Finally, **the extension of strategic planning in agriculture is potentially positive for climate objectives**, as it has constituted one of the success factors for the ERDF and CF's climate performance during the current cycle.

**Table 3: MFF funds' contributions towards the climate mainstreaming target**

Programme	Aspirational contribution towards the climate mainstreaming target <sup>67</sup>
Horizon Europe	35%
International Thermonuclear Experimental Reactor (ITER)	100%
InvestEU	30%
CEF	60%
ERDF	30%
CF	37%
CAP	40%
EMFF	30%
LIFE	61%
External action	25%
Instrument for Pre-Accession Assistance (IPA)	16%

Source: Trilling (2018)<sup>68</sup>

**Yet, the MFF proposal for 2021-2027 is not exempt from criticism.** The climate-related criticalities of the previous budget cycle are only marginally addressed. As such, the current proposal risks falling short of expectations, considering both the objectives and the processes.

## 2.6 THE CLIMATE SHORTCOMINGS OF THE NEXT BUDGET PROPOSAL

**In terms of governance – and despite simplification – the focus on conditionality remains mostly related to compliance with the EU *acquis* in climate-related legislation, as opposed to outcomes of climate spending.**<sup>69</sup> This is certainly relevant as member states will need to transpose the energy and climate-related legislative production of the current political cycle – and yet, the original shortcomings related to the conditionality found in the current cycle are not sufficiently addressed. In particular, a much more robust link could be envisaged between the MFF and NECPs. As for the CAP, governments are granted more flexibility in allocating funding, with unclear effects on climate ambitions.<sup>70</sup>

When it comes to the **25% mainstreaming target**, it should be noted that several political actors have been advocating for greater ambition, to reflect the Commission's own commitment to its mid-century strategy. For instance, the European Parliament has asked for a 30% mainstreaming target, while French President Emmanuel Macron has suggested 40%. **Besides the overall level of funding, climate-related spending remains mostly aspirational, and only occasionally is legally-binding earmarking foreseen.** This implies that allocations for climate actions will not necessarily be included in the planning process, and risks becoming an ex-post accounting exercise.<sup>71</sup>

**The MFF proposal for 2021-2027 is not exempt from criticism. The climate-related criticalities of the previous budget cycle are only marginally addressed. As such, the current proposal risks falling short of expectations, considering both the objectives and the processes.**

**Tracking and reporting methodologies have not been sufficiently strengthened. They remain scattered across the different chapters of the budget, reflecting different legal bases and stakeholder communities.** A CAN Europe study<sup>72</sup> found that the 100% climate marker can still be applied to fossil fuel-based installations in co-generation, district heating and cooling, as long as investment promotes higher efficiency. A door remains open for the use of natural gas in the transport sector too – notably in liquefied natural gas (LNG) form – under the label of 'alternative fuels infrastructures'. Gas projects can also be attributed to a 100% marker in transport in the CEF context. In agriculture, 40% of direct payments would count as climate action, with the persistent risk that dubious interventions would continue to be labelled as contributing to climate adaptation.

**The insufficient definition of climate proofing remains a serious gap in the budget.** Climate proofing criteria are yet to be defined and applied across the whole budget, where different – and not always operational – meanings of climate proofing appear in different chapters. Under the CP, climate proofing refers to the infrastructural resilience against climate-related events. Under CEF, proofing is left to be developed by the European Commission. InvestEU adopts a more sophisticated approach, referring to the inclusion of a shadow carbon price and the relative GHG emission reduction into the cost-benefit analyses of the supported investment – as the EIB has already done. All the while, the DCI does not make any reference to climate proofing at all. This leaves numerous loopholes, enabling the continuing support for climate-harmful practices in the

portion of the programmes not dedicated to climate-related spending,<sup>73</sup> unless explicit exclusion criteria are actually foreseen, as under the CP.

Finally, **shifting ETS revenues towards one's own resources implies uncertain effects on climate-related expenditure**, as member states currently allocate these revenues towards climate objectives. As based on the mainstreaming target, only a quarter of the 20% portion of ETS revenues to be moved towards the European budget would be dedicated to climate spending. This implies the risk of an overall reduction of climate spending under ETS resources.

All in all, the final evaluation is that despite encouraging attempts to fix some of the previous cycle's shortcomings which were tabled in this budget proposal, the magnitude of changes in international and European policy over the last five years is not sufficiently internalised by the proposal. Different legal bases, levels of management and stakeholder ecosystems specific to individual funds remain a fundamental obstacle to coherently integrating climate objectives across the budget. The next section will provide suggestions on how to improve the approach by better harnessing the potential of the possible synergies between the next MFF and new climate policy instruments at the EU's disposal.

### 3. Key recommendations to Paris-proof the next Multiannual Financial Framework

In a post-Paris Agreement world, 'business as usual' is no longer an acceptable approach. Realistically, this should not necessarily translate into making the budget a chief instrument of climate action for the EU. Yet, the budget does have an important role in supporting the EU's political priorities, both on the practical and symbolic levels, as nothing shows commitment more than putting your money where your proverbial mouth is. As such, the primary priority for the co-legislator should be to fully align the next multiannual budget to the EU's climate priorities.

#### 3.1 GETTING THE STRATEGY RIGHT: NO MORE SUPPORT FOR CLIMATE-HARMFUL PRACTICES

The new MFF proposal shows a desire to strengthen strategic planning, as demonstrated by the extension of the scope of strategic planning from CP to CAP, for instance. This is a relevant entry point for crafting an appropriate strategic alignment. The following options should be considered:

- ▶ **Uniformity should be introduced with regards to tracking methodology, instead of the scattered tracking landscape present across the different chapters.** The 100% marker should only be granted to programmes whose primary objective is emission reduction, in line with OECD practice. This would contribute to the reduction of the ambiguity of initiatives undertaken, especially under CAP, and decrease the overestimation of climate action stemming from this chapter. In addition, as many practices under CAP increase GHG emissions (i.e. any support for livestock farming), these should be compensated by support to activities that withdraw the same proportion of emissions.

- ▶ **Fossil fuel infrastructure should be excluded from EU support, through the extension of the CP's exclusion criteria to the whole budget.** Of course, total exclusion of support to certain gas infrastructure – notably import infrastructures which are unlikely to ever carry renewable or decarbonised gases – is likely to generate resistance among countries concerned by energy security risks and that have pushed for a diversification of the EU's gas import mix. However, gas security concerns should be less prominent during the next budget cycle as the EU's whole internal market is expected to achieve an adequate level of resilience to external shocks by the early 2020s. The exclusion of subsidisation to additional fossil fuel infrastructure is of critical importance, as there is a risk that new gas infrastructure will remain idle for most of its operational lifetime considering the EU's long-term climate ambitions.<sup>74</sup> To prevent such a risk, **it is essential that a single climate proofing methodology, based on a clear definition of "sustainability", is adopted for all the budget chapters** in order to avoid loopholes present in especially the CEF, Horizon Europe and CAP. Another option could be to reproduce the EIB's approach, consisting of a cost-benefit analysis which includes a shadow carbon price and an emission reduction level associated with the supported investments. This would significantly change the instruments under central management – such as the CEF or Horizon Europe – that have allocated sizeable sums to fossil fuel infrastructures and research and development (R&D) in the current cycle.<sup>75</sup>

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**The budget has an important role in supporting the EU's political priorities, both on the practical and symbolic levels, as nothing shows commitment more than putting your money where your proverbial mouth is.**

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► **As NECP negotiations are held in parallel with the programming phase of the MFF, the EU should make the most of the existing synchronicities in the two processes.** NECPs show an interesting potential as instruments that can align the PAs to the overall EU climate objectives, as the plans define member states' commitments towards the Paris goals. They include both member states' ambitions in terms of climate change mitigation and indications of necessary funding needs and financing measures in order to meet them. Yet, the link between NECPs and the budget suggested by the MFF proposal does not fully reflect this potential. Calculating the contribution of the current budget cycle against the seven objectives of NECPs – GHG emission reduction, renewable energy, energy efficiency, energy security, energy transmission infrastructure, electricity infrastructure, research and innovation –, the aforementioned CAN Europe report found that only 7.6% of the budget actually contributed to them. A full strategic alignment between NECPs and EU funds – especially those under shared management – should therefore be contemplated for the next cycle in order to fully unleash the transformative nature of the NECPs.

### **3.2 GETTING THE PROCESS RIGHT: STRENGTHENING THE FUNCTIONAL SYNERGIES BETWEEN THE BUDGET AND NECPs**

Beyond a strategic alignment between NECPs and MFF climate objectives, opportunities for linkage emerge from utilising the MFF as an instrument to incentivise ambitions and fully implement NECPs.

**Options include the possibility to use the MFF to reward the presentation of ambitious NECPs, or provide incentives for the full achievement of NECP objectives.** Indeed, elements of climate conditionality are now present. In the current budget proposal, member states are required to transpose and implement the new legislative tools. However, this does not indicate the level of climate ambition nor the performance of member states. On the contrary, conditionality is extremely developed in other areas. During the 2014-2020 financial period, the use of conditionality in the CP was significantly extended by the introduction of macroeconomic conditionality and additional conditional measures linked to policies, such as the requirement to take relevant CSRs into account during the programming period.<sup>76</sup> A large set of ex ante conditionalities have also been introduced in order to link ESIF to legal, policy and administrative requirements. Such an approach reflects the need to provide incentives for structural reform and, therefore, the budget's ability to depart from its original principles to adapt to current political priorities. Should the constellation of conditionalities remain the same, it would send the message that budgetary discipline and structural reform hold a priority over climate action. This is in stark political contradiction to the message that emerged for the vision for 2050.

Rewarding ambition could be an effective incentive since binding national commitments are not foreseen for RES deployment or energy efficiency. A “Paris reserve” could, therefore, be set aside, with different rewarding mechanisms put in place.<sup>77</sup> These could include an upfront incentive if member states' commitments are above a set baseline for GHG emissions, RES deployment and energy efficiency; a reward for member states that voluntarily upgrade their commitments in case the 28 NECPs fail to collectively cover the RES and efficiency targets (that are binding at EU level); or an incentive to scale up national ambitions in case the EU moves to a higher GHG reduction target in the foreseen 2020 INDC revision. Such an upscale is likely as there is consensus on the likelihood that current RES and energy efficiency targets will raise the GHG reduction above the 40% planned for 2030. Ideally, a reward could be combined with a stricter ex ante conditionality, focusing on quality rather than on compliance alone.

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**Should the constellation of conditionalities remain the same, it would send the message that budgetary discipline and structural reform hold a priority over climate action. This is in stark political contradiction to the message that emerged for the vision for 2050.**

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Another, not mutually exclusive, approach could consist of rewarding overperformance with additional finance. This could be linked to the budget's midterm review or the Energy Union governance progress monitoring, and ideally would be associated with a minimum ambition threshold.

In the case that the budget negotiations signal little desire to set aside a sizeable reserve to support ambitious or successful performances, an alternative for rewarding climate-virtuous member states could include easier access to InvestEU support.

All in all, strengthening the link between the MFF and NECPs would constitute a low-cost approach that makes the most from existing instruments, and would likely extract significant benefits from the existing expenditure. This approach would also establish a healthy competition among member states, encouraging them to scale up their respective climate ambitions and ensure compliance with the EU-level target in case some member states end up underperforming. These benefits will more than likely compensate for the additional administrative burden that some actors may suffer, while the focus on positive incentives would reduce the concerns of regional actors, who are often critical of the proliferation of conditionalities.

# Conclusions

Moving towards a net zero GHG economy presents challenges of unprecedented magnitude. Objectives can certainly not be attained through the EU budget alone, due to its limited scale and the presence of a vast number of parallel priorities. However, its importance should not only be stressed for its signals to investors but also – and especially – for the political message it provides to global partners. As the EU cultivates its global leadership ambitions, credibility is paramount if it is to keep the post-Paris multilateral climate process on track. It is, therefore, essential to demonstrate credibility by financially backing one's ambitions.

The current budget cycle shows some development in regards to climate mainstreaming and proofing. Yet, there is still much room for improvement. There are still areas of the budget that support climate-harmful activities, notably agriculture-related expenditure and fossil fuel infrastructure. Coordination of climate expenditure across the different budget chapters is quite poor. Tracking methodologies tend to overestimate the climate contribution of many funds. Climate conditionality suffers from a lack of implementation, institutional mismatching and an excessive focus on compliance with the EU *acquis*, rather than outcomes. Risk aversion and procurers' lack of administrative capacity restrains the potential of public procurement to create markets for sustainable products and services. Funds under centralised management seem to perform less well than funds under shared management when it comes to climate mainstreaming.

Unfortunately, these lessons were not sufficiently taken into account in the proposal for the next MFF. This is alarming to say the least, as the next budget cycle will

cover most of the period leading up to Europe's 2030 climate target deadline, and investments approved under the next decade will have an impact on the EU's ability to achieve its 2050 targets.

However, as member states negotiate the next MFF over the coming months, they can still strengthen the climate dimension to ensure that it will provide a meaningful contribution to the EU's decarbonisation objectives. The following points of recommendations to Paris-proof the next budget cycle consist of:

- ▶ introducing a uniform climate tracking methodology across the budget, ensuring that only disbursements fully aimed at reaching climate objectives account as a 100% climate contribution;
- ▶ phasing out any support of climate-harmful activities, and ensure that if they remain too difficult to abolish, their harmful emissions are compensated with additional climate efforts of the same proportion;
- ▶ implementing the CP's fossil fuel exclusion across the whole budget;
- ▶ adopting a single climate proofing methodology – based on a clear definition of sustainability – across the whole budget;
- ▶ establishing a full strategic alignment between the MFF and the NECPs in the context of PAs;
- ▶ making use of a performance reserve to reward NECP ambitions and/or member states' performances when implementing NECPs.

- <sup>1</sup> Commission (2014), [COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK. A policy framework for climate and energy in the period from 2020 to 2030](#), Brussels.
- <sup>2</sup> European Commission (2018a), [A Clean Planet for all: A European Strategic long-term vision for a prosperous, modern, competitive and climate neutral economy](#), Brussels.
- <sup>3</sup> United Nations (2015), "Paris Agreement", Paris.
- <sup>4</sup> European Commission (2018b), [COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. A Modern Budget for a Union that Protects, Empowers and Defends: The Multiannual Financial Framework for 2021-2027](#), Brussels.
- <sup>5</sup> European Commission, "2020 climate and energy package" (accessed 19 January 2019).
- <sup>6</sup> European Commission (2011), [COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. A Budget for Europe 2020](#), Brussels.
- <sup>7</sup> Markers rank the level of contribution individual disbursements accord towards the climate mainstreaming target. Expenditure which does not contribute to climate objectives is assigned a marker of 0% (insignificant). Expenditure providing 'moderate' contribution (i.e. railways, seaports, inland waterways, enhancement of biodiversity, clean urban transport infrastructures) is assigned a 40% marker. Expenditure providing 'significant' contribution (i.e. RES projects, research and development on the low-carbon economy, energy efficiency projects) is assigned a 100% marker.
- <sup>8</sup> European Parliament and the Council of the European Union (2013a), [Regulation \(EU\) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation \(EC\) No 1083/2006](#), Brussels.
- <sup>9</sup> ESIF includes the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF), the European Agricultural Fund for Regional Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).
- <sup>10</sup> European Parliament and the Council of the European Union (2013a), *op.cit.*, Art. 15.
- <sup>11</sup> *Ibid.*, Article 19. Annex XI lists compliance with the 2010 Energy Performance of Buildings Directive (EPBD), the 2012 Energy Efficiency Directive (EED), the 2009 Renewable Energy Directive (RED) and Directives 2006/32/EC, 2004/8/EC, 2000/60/EC and 2008/98/EC.
- <sup>12</sup> The concept of 'climate proofing' is not explicitly defined in the EU budget, consequently implying that investment risks are inconsistent with the Paris Agreement. A mitigation-focused climate proofing hierarchy which covers both the programme and project levels has been elaborated. See Monschauer, Yannick; Moritz Schäfer and Lola Mueller (2019), "[Aligning EU budget expenditures with the objectives of the Paris Agreement: Recommendations for sound and consistent Climate Proofing of the Multiannual Financial Framework 2021-2027](#)", Berlin: Navigant Energy Germany.
- <sup>13</sup> European Investment Bank, "[Continued mainstreaming: Climate action and our investment projects](#)" (accessed 24 January 2019).
- <sup>14</sup> European Parliament and the Council of the European Union (2014), [Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC](#), Brussels.
- <sup>15</sup> European Parliament and the Council of the European Union (2013b), [Regulation \(EU\) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the investment for growth and jobs goal and repealing Regulation \(EC\) No 1080/2006](#), Brussels, Article 4.
- <sup>16</sup> European Parliament and the Council of the European Union (2013c), [Regulation \(EU\) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development \(EAFRD\) and repealing Council Regulation \(EC\) No 1698/2005](#), Brussels, Article 59.6.
- <sup>17</sup> European Court of Auditors (2016), [Special Report No.31. Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short](#), Luxembourg, p.19.
- <sup>18</sup> Grzebieluch, Beata; Anna Dembek and Nicolas Meier (2018), [The EU spending on flight against climate change: In-depth analysis](#), Brussels: European Parliament, Annex II, pp.27-28.
- <sup>19</sup> European Court of Auditors (2016), *op.cit.*, p.66.
- <sup>20</sup> 87% of the €64 billion committed under the thematic objective of a low-carbon economy were covered by the CF and ERDF.
- <sup>21</sup> Nesbit, Martin; Kamila Paquel and Andrea Illes (2017), [Research for REGI Committee – Cohesion Policy and Paris Agreement Targets](#), Brussels: European Parliament.
- <sup>22</sup> European Commission, "[Breakdown of the Available Funds By Thematic Objectives By MS for 2014-2020](#)" (accessed 22 January 2019).
- <sup>23</sup> COWI A/S (2017), "[Mainstreaming of adaptation into the ESIF 2014-2020: Final Report](#)"; Kongens Lyngby: European Commission DG Clima.
- <sup>24</sup> Wihlborg, Mattias; Paul Jeffrey, Mate Vincze and Christine Hamza (2016), [The implementation of the provisions in relation to the ex-ante conditionalities during the programming phase of the European Structural and Investment \(ESI\) Funds: Final report](#), Brussels: European Commission.
- <sup>25</sup> Trilling, Markus; Maeve McLynn; Anna Roggenbuck; Pippa Gallop; Colin Roche; Klaus Röhrig; Xavier Sol and Antoine Simon (2017), "[Phase-out 2020: monitoring Europe's fossil fuel subsidies](#)"; London/Brussels: Overseas Development Institute/Climate Action Network Europe.
- <sup>26</sup> COWI A/S (2016), "Mainstreaming of climate action into ESI Funds: Final report"; Kongens Lyngby: European Commission DG Clima, Table 3-1, p.32.
- <sup>27</sup> European Environment Agency (2016), "[Trends and projections in Europe 2016 – Tracking progress towards Europe's climate and energy targets](#)"; Copenhagen.
- <sup>28</sup> Eurostat, "[Greenhouse gas emissions statistics – emissions inventories](#)" (accessed 30 January 2019).
- <sup>29</sup> COWI A/S (2017), *op.cit.*
- <sup>30</sup> Green direct payments account for 30% of EU countries' direct payment budgets. Farmers receiving an area-based payment have to make use of various straightforward, non-contractual practices that benefit the environment and the climate, which require yearly actions. These include diversifying crops, maintaining permanent grassland and dedicating 5% of arable land to "areas beneficial for biodiversity" (Ecological Focus Areas). See European Commission, "[Sustainable land use \(greening\)](#)" (accessed 18 June 2019).
- <sup>31</sup> Hart, Kaley and Faustine Bas-Defossez (2018), "[CAP 2021-2027: Proposals for increasing its environmental and climate ambitions](#)"; Institute for European Environmental Policy, p.7.
- <sup>32</sup> The Netherlands, France, Spain, Greece and Poland.
- <sup>33</sup> European Court of Auditors (2017), [Special Report No.15. Ex ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments](#), Luxembourg.
- <sup>34</sup> Forster, David; Hetty Menadue; James Tweed; Martin Nesbit; Andrea Illes; Rob Williams; Jeroen van der Laan and Lisa Eichler (2017), [Climate mainstreaming in the EU Budget: preparing for the next MFF. Final Report](#), Brussels: European Commission.
- <sup>35</sup> European Court of Auditors (2017), *op.cit.*
- <sup>36</sup> *Ibid.*
- <sup>37</sup> Boni, Anna Lisa and Pawel Chorąży (2016), [Report on goldplating: HLG on simplification of ESIF](#), Brussels: European Commission.
- <sup>38</sup> European Commission, "[Environment > Green Public Procurement > Criteria > Background and approach](#)" (accessed 04 February 2019).
- <sup>39</sup> European Commission, "[The EU Single Market > Single Market Scoreboard > Performance per Policy Area > Public Procurement](#)" (accessed 04 February 2019).
- <sup>40</sup> Milieu Ltd. (2015), "[Study on climate mainstreaming in the programming of centrally managed EU funds: Final Report](#)"; Brussels: European Commission.
- <sup>41</sup> Forster *et al.* (2017), *op.cit.*, p.102.
- <sup>42</sup> Latvian Presidency of the Council of the European Union (2015), [Intended Nationally Determined Contribution of the EU and its Member States](#), Riga.
- <sup>43</sup> United Nations (2015), *op.cit.*, Articles 2.1(a), 4.1.
- <sup>44</sup> McCollum, David L. *et al.* (2018), "[Energy investment needs for fulfilling the Paris Agreement and achieving the Sustainable Development Goals](#)"; *Nature Energy*, Volume 3, pp.589-599.
- <sup>45</sup> Intergovernmental Panel on Climate Change (2018), "[Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat](#)

of climate change, sustainable development, and efforts to eradicate poverty,” Geneva.

<sup>46</sup> BP (2019), “BP Statistical Review of World Energy 2019”, London, p.57.

<sup>47</sup> European Commission, “Energy, Climate change, Environment > Climate Action > EU Action > Climate strategies & targets > 2030 climate & energy framework” (accessed 16 March 2019).

<sup>48</sup> The Emissions Trading System (ETS) Directive establishes the first major (and currently the largest) carbon market in the world. The ETS is a cap-and-trade system operating in 31 countries, covering power stations, industrial plants and airlines operating between the covered countries. The ETS covers roughly 45% of EU GHG emissions. See European Parliament and the Council of the European Union (2018a), [Directive \(EU\) 2018/410 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision \(EU\) 2015/1814](#), Brussels; European Commission, “Energy, Climate change, Environment > Climate Action > EU Action > EU Emissions Trading System (EU ETS)” (accessed 21 February 2019).

<sup>49</sup> The original Renewable Energy Directive (RED, 2009) establishes an overall policy for the production and promotion of energy from renewable sources in the EU. In December 2018, the revised RED entered into force, establishing a new binding renewable energy target for the EU for 2030 of at least 32%, with a clause for a possible upwards revision by 2023. See European Parliament and the Council of the European Union (2009), [DIRECTIVE 2009/28/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC](#), Brussels; European Parliament and the Council of the European Union (2018b), [DIRECTIVE \(EU\) 2018/2001 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 11 December 2018 on the promotion of the use of energy from renewable sources \(recast\)](#), Brussels.

<sup>50</sup> The Energy Efficiency Directive (EED) includes a binding collective target for energy consumption for 2030, energy savings obligations in end use, and rules on metering and billing. See European Parliament and the Council of the European Union (2018c), [DIRECTIVE \(EU\) 2018/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 11 December 2018 amending Directive 2012/27/EU on energy efficiency](#), Brussels; European Commission, “Energy > Topics > Energy Efficiency > Energy Efficiency Directive” (accessed 04 March 2019).

<sup>51</sup> The Energy Performance of Buildings Directive (EPBD) includes specific provisions and measures to support national governments and keep track of their progress. These include, among other measures, an EU Building Stock Observatory, nearly zero-energy building requirements, energy performance certificates and requirements for member states to produce long-term renovation strategies. See European Parliament and the Council of the European Union (2018d), [DIRECTIVE \(EU\) 2018/844 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency](#), Brussels; European Commission, “Energy > Topics > Energy Efficiency > Energy performance of buildings > Energy performance of buildings directive” (accessed 04 March 2019).

<sup>52</sup> European Parliament and the Council of the European Union (2018e), [REGULATION \(EU\) 2018/842 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation \(EU\) No 525/2013](#), Brussels.

<sup>53</sup> European Commission (2018a), *op.cit.*; see also European Commission (2018c), [IN-DEPTH ANALYSIS IN SUPPORT OF THE COMMISSION COMMUNICATION COM\(2018\) 773. A Clean Planet for all: A European long-term strategic vision for a prosperous, modern, competitive and climate neutral economy](#), Brussels.

<sup>54</sup> The European Commission’s eight scenarios vary according to the main driver and level of foreseen emission reductions. The main drivers in the scenarios leading to a 80% emissions reduction are energy efficiency (EE); resource and material efficiency (CIRC); electrification in all sectors (ELEC); hydrogen in industry, transport and buildings (H2); and e-fuels in industry, transport and building (P2X). The COMBO scenario, leading towards a 90% emission reduction outcome, considers a cost-efficient combination of the previous options. As for the carbon-neutral scenarios, 1.5TECH and 1.5LIFE’s main drivers are respectively a larger penetration of bio-energy with carbon capture and storage (BECCS) and carbon capture and storage (CCS) on top of the COMBO scenario, and lifestyle changes on top of the COMBO and CIRC scenarios. See European Commission (2018c), *op.cit.*

<sup>55</sup> European Commission (2018c), *op.cit.*, Table 10, p.202.

<sup>56</sup> European Commission (2018b), *op.cit.*

<sup>57</sup> Forster *et al.* (2017), *op.cit.* The amount refers to the investment gap related to the first Commission’s proposal for the 2030 targets, which foresaw a 27% target for both renewables and energy efficiency.

<sup>58</sup> InvestEU will replace the European Fund for Strategic Investments (EFSI).

<sup>59</sup> The TOs for the new programming period are a smarter Europe, a greener and low-carbon Europe, a more connected Europe, a more social Europe, and a Europe closer to citizens. European Commission (2018c), *op.cit.*

<sup>60</sup> European Commission (2018b), *op.cit.*, p.27.

<sup>61</sup> European Commission (2018d), [Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument](#), Strasbourg.

<sup>62</sup> *Ibid.*

<sup>63</sup> European Commission (2018e), [Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing the Connecting Europe Facility and repealing Regulations \(EU\) No 1316/2013 and \(EU\) No 283/2014](#), Brussels.

<sup>64</sup> O’Sullivan, Meghan; Indra Overland and David Sandalow (2017), “The Geopolitics of Renewable Energy”, New York/Massachusetts: Center on Global Energy Policy/The Geopolitics of Energy Project.

<sup>65</sup> European Commission (2018d), *op.cit.*

<sup>66</sup> Dhéret, Claire and Marco Giuli (2017), “The long journey to end energy poverty in Europe”, Brussels: European Policy Centre.

<sup>67</sup> Targets are not binding for all the chapters in the Commission’s proposal.

<sup>68</sup> Trilling, Markus (2018), “Climate Mainstreaming and Climate Proofing: The horizontal integration of climate action in the EU budget – assessment and recommendations”, Brussels: CAN Europe.

<sup>69</sup> European Commission (2018d), *op.cit.*, Annex IV.

<sup>70</sup> Duwe, Matthias (2018a), “Bringing Paris into the future MFF: how to maximise the benefits of EU funding for the achievement of EU climate objectives. Integrating the 2021-2027 MFF and the new 2030 energy and climate target governance”, Berlin: Ecologic Institute.

<sup>71</sup> Trilling (2018), *op.cit.*

<sup>72</sup> *Ibid.*

<sup>73</sup> Fischer, Lisa; Jonathon Gaventa; Elisa Giannelli; Pedro Guertler; Tom Jess and Lea Pilsner (2018), “Sectoral legislation in the post-2020 budget: ensuring effective climate spending”, ESG.

<sup>74</sup> Dupont, Claire and Sebastian Oberthür (2012), “Insufficient climate policy integration in EU energy policy: the importance of the long-term perspective”, *Journal of Contemporary European Research*, Volume 8, Number 2 (Special Issue), pp.228-247.

<sup>75</sup> Whilst this is also the case for InvestEU – whose predecessor EFSI dedicated one quarter of its endowment to support high-carbon investment –, it is set to adopt a more robust climate proofing methodology, referring to the EIB approach and ultimately subjecting itself to the guidance provided by the ‘taxonomy’ regulation for climate finance.

<sup>76</sup> European Parliament and the Council of the European Union (2013a), *op.cit.*, Articles 15.1(a), 23.

<sup>77</sup> Duwe, Matthias (2018b), “Result oriented spending for the climate: Creating strong connections between the EU budget and National Energy and Climate Plans”, Berlin: Ecologic Institute.

## MISSION STATEMENT

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