

Greening the Cohesion Policy: Supporting and improving climate thematic concentration

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The €336 billion of the future Cohesion Policy 2014-2020, the second largest EU fund, will be a decisive tool in shaping the EU's future sustainable economy. In order to create green jobs, to maximize local and regional economic opportunities and to deliver on EU climate and energy targets, an ambitious amount of EU funds should be allocated towards climate investments.

1. THE COMMISSION'S PROPOSAL OF CLIMATE THEMATIC CONCENTRATION

In its Cohesion Policy legislative package of October 2011, the European Commission has proposed that 20% of the European Regional Development Fund (ERDF) for developed and transition regions and 6% for less developed regions are set as minimum thresholds to be allocated to the thematic objective of "supporting the shift to a low-carbon economy in all sectors".

For the EU27, this would amount to €9,8 billion for developed and transition regions and €7,3 billion for less developed regions. This totals €17 billion –or **5,1% of the future Cohesion Policy**.

2. A STRONG RATIONALE FOR CLIMATE THEMATIC CONCENTRATION

1. The EU is well off track in meeting its energy savings target

Energy savings efforts undertaken or announced by Member States for the period leading up to 2020 will only reach a 9% energy efficiency improvement, failing by half to reach the 2020% energy saving target¹. **Closing the gap is a must and additional efforts are needed, as the European Council of February 2011 concluded:** "The 2020 20% energy efficiency target as agreed by the June 2010 European Council, which is presently not on track, must be delivered. This requires determined action to tap the considerable potential for higher energy savings of buildings, transport and products and processes"².

According to the Commission's Roadmap to a low carbon economy³, an additional €200 billion is needed over the next decade for the refurbishment of existing building stock – a significant amount. But **failing in this objective would be more expensive and waste up to €78 billion consumers' money annually in 2020** – largely flowing from Europe to oil and gas rich countries⁴.

2. The European Parliament should be coherent with its own energy efficiency demands

The European Parliament has been a constant supporter in increasing the energy efficiency of the EU – even recently with the Energy Efficiency Directive's review. Climate thematic concentration is fully consistent with its Resolution on energy efficiency where **the Parliament called "to allocate more funds for energy efficiency programmes and to promote the possibility to use up**

¹ <http://www.europeanvoice.com/article/imported/member-states-fail-to-meet-energy-efficiency-targets/69834.aspx>

² Article 8, conclusions of the European Council of 4 February 2011,

<http://register.consilium.europa.eu/pdf/en/11/st00/st00002-re01.en11.pdf>

³ European Commission (2011), A Roadmap for moving to a competitive low carbon economy in 2050

⁴ Stefan Scheuer consultancy, <http://www.stefanscheuer.eu/NRP%20EE%20targets%20analysis.pdf>

to 15% of the ERDF for energy efficiency”⁵. This proposal is 60% more ambitious than the current proposal from the Commission.

The Parliament has co-decision power on the Cohesion Policy, and thus has a unique opportunity to show consistency.

3. The EU needs to increase its investments in renewables to reach its 2020 targets

A 2011 communication of the Commission called Member States to double annual capital investments in renewable energies from €35 billion to €70 billion to achieve the EU's target of 20% renewable energy by 2020⁶. Currently, a tiny amount, 1,4% of Cohesion Policy only is spent on renewables (€4,9 billion over seven years). Based on the Commission's assessment, it is logical to ensure that Cohesion Policy investments in renewables at least double over the next period.

4. Energy saving and renewable investments will create up to 2,6 million jobs by 2020

There are massive local economic and job opportunities in virtually every region deriving from energy savings and renewable energies. According to the Danish Ministry of Climate and Energy⁷, reaching the 20% energy saving target by 2020 will create up to 2 million local jobs that cannot be outsourced. Notably, the building sector is THE single biggest opportunity for energy savings and is providing a huge amount of jobs. According to the Commission the 20% renewable energy target can create up to 600,000 additional jobs⁸. **But this employment will not be created without much stronger funding, resulting in a massive loss of opportunities** - this should be prevented in the current tough unemployment crisis.

5. Energy saving and renewables are at the heart of the Europe 2020 Strategy

The energy efficiency, renewable and climate targets by 2020 are included in the **headline targets of the Europe 2020 Strategy**, the main framework for shaping the future EU budget 2014-2020⁹. The EU budget and notably Cohesion Policy are policy tools that should contribute more to reaching these EU 2020 Strategy targets.

For that reason the Commission also proposed that 20% at least of the future EU budget benefits to climate action. Cohesion Policy should deliver on this commitment and the climate thematic concentration is needed accordingly.

6. The climate thematic concentration is a necessity to ensure concentration of resources

The Commission's proposal provides for 11 thematic objectives for investments for the future Cohesion Policy. Collectively they represent a very wide range of activities that can be funded through Cohesion Policy. The European Court of Auditors expressed concerns that it could undermine the wanted concentration of expenditure, that is needed to build up a critical mass and increase the added value of Cohesion Policy: “the ERDF could intervene in each of the 32 investment priorities foreseen (Article 5 of the ERDF draft Regulation). **This would make it possible to fund almost any kind of projects**”¹⁰. **Another tool is thus required to ensure better concentration:** this is the climate thematic concentration.

Current Cohesion Policy, without any fundamental prioritization and concentration, devotes only a meager 2.6% of its resource to both renewable energies and energy savings (€9,1 billion or €1,3

⁵ European Parliament, Resolution of 15 December 2010 on Revision of the Energy Efficiency Action plan (2010/20107(INI)), article 82

⁶ Communication assessing member states' progress toward meeting the 2020 targets, 31/01/11, <http://www.euractiv.com/energy/oettinger-tells-europe-double-quits-renewables-news-501748>

⁷ EPC event, Brussels, 24/01/12

⁸ European Commission, Staff working document of Regional Policy contributing to sustainable growth in Europe 2020, COM(2011)17

⁹ http://ec.europa.eu/europe2020/index_en.htm

¹⁰ European Court of Auditors, Opinion 7/2011 on the proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the Common Strategic Framework funds

billion a year). The climate thematic concentration proposed by the Commission would increase this amount to a modest 5.1% of Cohesion Policy – to compare with 24% for transport today.

7. The climate thematic concentration includes a large scope of investments allowing flexibility

Energy savings and renewable energies are not a narrow niche for investments. Investments in renewable energies include a wide range of sectors (solar photovoltaic, wind, solar thermal, small scale hydropower, geothermal, biogas and biomass from wood, waste, agricultural residues, etc.). The scope proposed for energy savings includes all kinds of public infrastructures and the entire housing sector – a huge area of work with around 200 million dwellings to refurbish in EU27. All these options are fully open to the choice of the stakeholders: **the proposed low carbon thematic concentration is broad enough to ensure flexibility based on regional needs and characteristics.**

8. Absorption capacity can be managed

Cohesion Policy already proposes 4 specific operational tools that will be further developed to assist regions: they include **two technical assistance mechanisms** of JASPERS (for large scale projects in the 12 CEE Member States) and ELENA (for energy efficiency and renewable energy investments), and **two innovative financial instruments** of JEREMIE (loans, guarantees and equity investments for SMEs) and JESSICA (loans, guarantees and equity investments for cities). In addition, Member States and regions are currently improving their administrative and financial capacity to manage Cohesion Policy funds. This notably includes Romania and Bulgaria which received Cohesion Policy support for the first time in 2007 and are clearly aware of the challenge. Finally, training and guidance for both Member States and regions and project applicants has a big potential to be developed further. By 2014, the climate thematic concentration will be clearly manageable if anticipated and planned smartly.

9. Economic opportunities will benefit every single region in Europe

All European regions in Europe still have untapped potential to improve their energy saving and renewable outputs. In addition, the bulk of energy savings and renewable energy investments cannot be outsourced. This will result in creating economic opportunities in virtually all regions, not only a few ones.

10. Energy savings are the lowest-cost climate solution

Energy savings are recognized as the lowest-cost and fastest means of tackling climate change¹¹.

On average, the abatement cost of 1 ton of CO₂ is 40€/t CO₂ for the gas industry, is 70 €/t CO₂ for coal-gas fuel switch, and increases to 70-120 €/t CO₂ for CCS. Alternatively, most energy savings (especially in buildings) are an economically profitable climate solution: the economic return on energy savings investments in buildings is usually between 3 to 10 years – a relatively short timeframe. Once the upfront investment cost has been paid off (through yearly energy savings) the money saved by energy efficiency can be reinvested in the economy.

In addition, Cohesion Policy is well placed to **support ambitious large scale refurbishment programmes** – grouping together a sizable number of buildings - reducing costs further through than isolated efforts due to reduced transaction costs. This already happens: in Lithuania an ambitious renovation of 550 public buildings was undertaken with the Cohesion Fund's support¹².

11. Reducing costly imports will improve energy security

¹¹ The Coalition for Energy Savings, Financial issues for energy efficiency, April 2011

¹² European Commission, Regio Stars Awards 2011: Scheme of renovation of the public buildings in Lithuania, Cohesion Fund (€270 million)

Imports of fossil fuels cost €200 billion a year to the EU and are on the rise. In 2010, our import bill rose by \$70 billion due to oil prices, an amount equivalent to the combined budget deficits of Greece and Portugal¹³. Energy savings and renewable energies are the best options for energy security: they are massively available inside Europe.

12. Failing on EU 2020 targets will make EU long term climate target more expensive

As shown by the Commission's Roadmap to a low carbon economy¹⁴, reducing emissions immediately through energy savings (the low hanging fruit) is cheaper and more cost effective than waiting a decade or more later in order to meet the EU 2050 target of 80 to 95% GHG reduction.. Indeed, the effectiveness of climate investments is decreasing over time, calling for cheaper fast start action.

In addition, failing to meet energy efficiency EU target by 2020 will deteriorate the EU influence and credibility in international climate negotiations – an increased cost for European diplomacy.

3. THE NEED TO IMPROVE THE COMMISSION'S PROPOSAL

The climate thematic concentration proposed by the Commission is a modest step in the right direction. But this is still insufficient to encourage and financially support European regions to follow a low carbon path. The proposal should be strengthened to improve concentration of resources and build up a critical mass, in order to reach the energy saving target by 2020.

Improving the climate thematic concentration from 20% to 25% in developed and transition regions and from 6% to 15% in less developed regions will amount to €30.5 billion or 9.1% of the future Cohesion Policy.

4. RECOMMENDATIONS TO DECISION MAKERS

Environmental NGOs call on MEPs to support and strengthen the Commission's proposal for climate thematic concentration in ERDF by asking:

- 25% of climate thematic concentration for developed and transition regions;
- 15% for less developed regions.

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¹³ Financial Times, Oil prices soaring, 5 January 2011

¹⁴ European Commission (2011), A Roadmap for moving to a competitive low carbon economy in 2050