unlocking a low-carbon Europe

perspectives on EU budget reform

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unlocking a low-carbon Europe perspectives on EU budget reform

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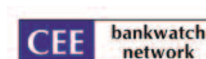

introduction: unlocking a low-carbon Europe

Chris Littlecott
Green Alliance

Reform of the EU budget matters deeply for the pursuit of a low-carbon economy. For there is arguably no policy lever as important as the EU budget for setting the direction of EU action.

Chris Littlecott is a senior policy adviser at Green Alliance and is the UK board member of the European Environmental Bureau. He leads the development and delivery of Green Alliance's EU strategy, with a particular focus on the topics of carbon capture and storage and EU budget reform.

The year 2010 presents the European Union with the opportunity to define a fresh focus for the next 10 years. For by coincidence of calendars, the EU finds itself starting a new political cycle in a revised institutional framework.

The entry into force of the Lisbon Treaty means that 2010 will see Herman Van Rompuy begin to shape the new role of President of the European Council. Similarly, a fresh team of European Commissioners will take office, while the European Parliament will take forward enhanced powers.

But to describe the EU's prospectus for the new decade in these institutional terms alone would be to remain stuck in the inward-looking traps of the recent past. This new context instead opens the door for a sustained practical focus on meeting the shared challenges that will shape Europe's future.

climate challenge, budget leverage

Amongst the host of challenges that face Europe in 2010, there are none more pressing than the twin tasks of securing a stable climate and moving to a low-carbon economy. No member state can tackle these tasks alone; cooperation is the only route available. Successful action on climate change is therefore a litmus test for the EU's ability to deliver on its core purpose as a facilitator of shared efforts to meet common goals.

Furthermore, Europe's existing climate policies also have their own timetable interface with the new decade. The Climate Action and Renewable Energy (CARE) package negotiated in 2008 commits the EU to a 20 per cent share of renewables in its energy mix and a minimum 20 per cent reduction of carbon emissions by 2020. These commitments will form a central delivery challenge for the next 10 years, and will remain at the top of the agenda to be defined in 2010.

While climate change is the EU's top external challenge, the EU budget arguably ranks as one of its most politically significant and as yet underused policy levers for delivering on this task. And here too 2010 will be a crucial year with implications for the whole decade.

At the last negotiation of the multiannual financial perspectives in 2005, it was agreed that a fundamental review of the EU budget would be carried out in 2008-09. The aim was for the review to guide reform plans ahead of the next negotiation of the budget for the period 2014-2020, to ensure that it is focused on the right priorities rather than remaining 'an historical relic'.[1] Yet despite an extended stakeholder consultation process during 2007-08, the European Commission's proposals for a reformed EU budget will only finally see the light of day during 2010. False dawns came and went during 2009. The necessity of a future-focused EU budget remains ever-more urgent, yet the political momentum for reform must now be refreshed.

This delayed opportunity for reform of the EU budget matters deeply for the pursuit of a low-carbon economy. For there is arguably no policy lever as important as the EU budget for setting the direction of EU action. While the size of the budget remains close to just one per cent of EU's Gross National Income, it has the ability to lever additional spending by member states and the private sector. However, it is perhaps its political value that is of most influence. For the way in which the EU spends its resources is the primary indicator of its political priorities and its institutional ability to organise their pursuit.

EU budget spending thereby provides a tangible demonstration of Europe's long-term political commitment to its shared aims, demonstrating an assurance of purpose beyond the reach of other policy levers. With economic uncertainties currently abounding, a reformed EU budget would help provide increased political certainty in addition to its financial resources. Both aspects will be crucial in fostering the new low-carbon economy and securing immediate investments in new technologies and infrastructure.

about this publication

This publication addresses the political challenge of acting on these two priority areas of climate change and the reform of the EU budget. In our view, they will be the defining tasks not just of 2010, but of the new terms in office of the European Commission, European Parliament, and President of the European Council.

For successful agenda-setting action in 2010 will set the EU on course for policy delivery throughout this new decade. A concerted approach that tackles both challenges together will of course be difficult, but is far more likely to succeed than any disconnected attempts to deal with these challenges in isolation. Our analysis is that there exists a real opportunity to develop a positive, mutually-reinforcing dynamic between these two agendas. Movement on the EU budget will help unlock a low-carbon Europe, while the continuing pressure for action on climate change can create the momentum required for budget reform.

Indeed the need for reform of the EU budget to support the low-carbon transition is a topic of enduring interest for Green Alliance. Back in 2007 we published *investing in our future: a european budget for climate security*,[2] which made the case for the review of the EU budget to place action on climate change at the heart of its policy proposals. Now, this new collection of viewpoints from diverse businesses and NGOs, social organisations and thinktanks, highlights the political importance of budget reform as a necessary step in building confidence and unlocking Europe's low-carbon transition. Furthermore, the perspectives offered here also support our view that a focus on climate change can in turn significantly improve the prospects for

budget reform, providing political impetus and leveraging the economic resources required to kickstart a new post-crisis era of sustainable growth and job creation.

The arguments made in this publication are those of each individual author and organisation alone, yet taken as a whole they present a coherent case for ambitious reform of the EU budget. Importantly, they point to both the imperative of mobilising different stakeholder interests, and the importance of continuing the 'no taboos' budget review debate throughout this direction-setting year of 2010.

learning from 2009

For of course the opening of the new decade does not present a completely blank slate. The events of late 2009 will in particular have an important influence on the EU's evolving approach during 2010. While more detailed analyses will surely follow over the coming months and years, it is already possible to draw some key learnings of immediate relevance.

On climate change, the Copenhagen negotiations in December 2010 fell short of achieving the EU's aspirations. A global deal to reduce carbon emissions was not reached, while the development of the EU's own shared position proved to be a matter of prolonged and delicate negotiations throughout the year. Both of these aspects will have an impact on the 2010 agenda, which will see continued international efforts to secure commitments to reductions in carbon emissions by the signatory countries to the Copenhagen Accord.[3] The United Nations negotiating process will likewise continue at meetings in Bonn and Mexico.

On the international stage, refreshed EU climate leadership is an imperative. The EU must build fresh momentum and create a more cohesive unity of purpose, both for its common international stance on issues such as climate finance, and also for its domestic efforts to stimulate the transition to a low-carbon economy. In this respect, the lack of clarity resulting from the Copenhagen negotiations has already been felt in the downbeat response of the carbon market.[4] Additional regulatory measures and financial support will now undoubtedly be required to bolster the EU emissions trading scheme (ETS) through the coming years of uncertainty.

The headline message of EU climate efforts in 2009 seems clear. While the EU began the year positively with its agreement of the CARE package, it was unable to generate sufficient momentum to turn this positive step forward into a domestic springboard towards a global deal.

A similar dynamic of positive aims faltering in their delivery was also the story in 2009 for the reform of the EU budget. The European Commission failed to meet its mandate to report on the way forward from the budget review, as efforts to secure the entry into force of the Lisbon Treaty and respond to the economic crisis took an understandable if unfortunate precedence. As a result, the momentum previously built up during the consultation process was lost.

What did eventually emerge in October 2009 was a leaked draft version of the European Commission paper on the budget review,[5] which was met with predictably negative responses from current budget winners and only a muted show of support from supporters of reform. These responses were doubly unfortunate, not just because the draft proposals for a low-carbon focus for the EU budget were worthy of a positive response from all sectors, but also because an opportunity to build a cohesive EU position and wider coalition for reform had been missed.

Both of these areas – the external threat of climate change and the internal challenge of budget reform – showed the difficulties the EU faced in 2009 as it tried to turn its aims into action. The big institutional achievement of the entry into force of the Lisbon Treaty will be in vain if these kinds of problems do not become more amenable to resolution.

The early months of 2010 will therefore demonstrate whether the EU has entered the new decade with a hangover or new resolve. The climate science imperative for further action to reduce the EU's carbon emissions by 30 per cent or more by 2020 remains, as does the need for refreshed efforts to equip the EU for a sustainable route out of economic recession.

defining the EU's 2020 vision

While many of the details of the future international climate regime remain to be determined, the EU itself is in a position to rapidly define its own priorities for the coming decade, and within that its pursuit of a low-carbon economy. The 'EU 2020' strategy,[6] proposed for approval in the first half of 2010, offers the opportunity to anchor the low-carbon transition firmly to the pursuit of economic competitiveness, job creation, resource efficiency and sustainable prosperity, providing a routemap for a just transition for European workers and citizens. The initial proposals made are therefore to be welcomed as having placed the low-carbon economy and the need for green growth at the centre of the EU's recovery plans.

As the successor approach to the Lisbon strategy for growth and jobs, the EU 2020 strategy will set a course for action across the new decade, providing a reference point for all other policy areas and influencing spending decisions. Its principles for action will have enduring relevance. But, as with any strategy, it will only be as influential as the decisions that flow from it and the resources it provides. The EU 2020 strategy and the reform of the EU budget must therefore be viewed as a cohesive package. The priorities to be agreed for the strategy will subsequently need to be defined further by the European Commission's long-awaited paper on the budget review.

unlocking confidence

What the EU 2020 strategy offers is the prospect of a wider approach for action on climate change that is closely integrated with the other economic challenges facing the EU, and which will set an ambitious tone for budget reform decisions. By making smart investments in infrastructure, and pursuing active policies to support the creation of new green jobs, the EU can develop with the low-carbon competitiveness needed for success in a carbon-constrained world. In so doing, it can start to build the wider political and economic confidence it will require for its low-carbon transition, and which it can make tangible via the reform of the EU budget. This pursuit of confidence in the climate effort is a central theme taken up by our authors.

David Baldock and Camilla Adelle of IEEP set out the rationale for EU budget spending on climate and energy, linking this to the objectives agreed in the 2008 Climate Action and Renewable Energy package. Policy direction has been set, they argue, but the use of budgetary policy levers are lagging behind.

Jesse Scott of E3G highlights how the EU budget is an iconic demonstration of the EU's political priorities. She makes the case for a forward-looking budget that engages with the challenges facing Europe in a globalised world and reconnects Europe to its citizens.

Arif Shah of Business for New Europe highlights the need to build business confidence that the low-carbon transition can be achieved in ways that foster competitiveness and spur innovation. He

argues that political leadership on the EU budget will help underpin the EU's policy frameworks and market mechanisms, with targeted spending helping to address investment barriers.

Other authors also pick up on this theme throughout the publication, highlighting the similar need for confidence among social actors and member states, particularly those from central and eastern Europe. As Paweł Świeboda and Agata Hinc of demosEUROPA point out, these countries have already gone through an involuntary low-carbon transition in the early 1990s. The EU needs a stronger positive strategy to secure their enduring support going forward.

financing the low-carbon transition

Given the limited size of the EU budget, and the multiple objectives requiring concerted shared action, it is neither possible nor desirable that the EU budget should finance the whole of the EU's low-carbon transition.[7] But the EU budget remains of paramount importance as a means of meeting the climate challenge. EU budget instruments are able to leverage additional spending by member states and the private sector, fostering more coherent expenditure policies across national boundaries and economic sectors.

Furthermore, EU budget spending can provide specific added value by directing its spending on the public goods and market failures that remain out of reach of national action.[8] A key argument set out in the chapters that follow is therefore that the challenge of spending the budget better on low-carbon objectives must be of central importance to the budget review.

David Orr of CECODHAS-Housing Europe makes the case for increased EU spending on energy efficiency: 'the big win within reach'. The EU budget can leverage further support from member states and investment banks, helping unlock the massive potential for energy savings and spurring the retrofit of the EU's housing stock.

Keti Medarova-Bergstrom, writing for CEE Bankwatch network and Friends of the Earth Europe, develops this topic further, highlighting how the massive flows of EU budget spending in support of cohesion policy present an opportunity to kickstart low-carbon investment. Yet the EU's past record is not good, she notes, with spending often resulting in increases in carbon emissions rather than helping to decrease them.

Giles Dickson of Alstom similarly concentrates on the EU added-value that can come from investment in new low-carbon technologies. He links the need for significant increases in Research and Development to the investment barriers facing technologies before they reach the stage of commercial deployment. Coordinated EU spending to address these barriers could unlock the efforts of the private sector to provide the new technologies the EU requires.

connecting with revenues

Yet if much of the discussion of the reform of the EU budget focuses on its expenditure, the resources debate is also of great importance for climate policy. With growing revenues coming from the receipts of auctioning allowances from the EU's emissions trading scheme (ETS), and increasing interest by member states in energy or carbon taxes, European citizens and the private sector increasingly want to see the fruits of these revenues spent on the low-carbon transition.

The challenge will therefore be for member states to make visible their commitment to low-carbon investment. The incorporation of some ETS or carbon tax revenues into the EU budget could provide a time-limited EU resource that can be focused on shared climate challenges.

We must remember that member state positions on fiscal sovereignty make this a difficult area of EU politics, while the economic arguments against the earmarking of revenues are similarly strongly defended. Yet although these imposing feasibility barriers remain, the underlying climate policy rationale and potential public acceptability benefits are clearly argued in the following chapters.

Sanjeev Kumar of WWF argues that the creation of significant auction revenues from the EU emissions trading scheme creates both a legitimacy challenge and an opportunity for the EU to direct funding on key climate and energy targets.

Eulalia Rubio of Notre Europe discusses the prospects for new taxes on carbon emissions or energy sources to fund part of the EU budget, additionally providing direct assistance to the pursuit of policy objectives and creating a more positive member state dynamic in favour of investment in EU public goods.

strategy

A reformed, low-carbon EU budget is a key indicator of whether the EU can put in place the political conditions required for action on climate change, energy security, or any of the wider suite of 21st century challenges that will require its attention. In all of these areas, a more positive foundation for member state cooperation on shared public goods is essential. While the new institutional arrangements that flow from the Lisbon Treaty are meant to help make this possible, strategic spending will also be required to share efforts and unlock investment.

Reform efforts will require attention to both the political challenges facing member states and the process opportunities available ahead of the next multiannual budget negotiations.

Paweł Świeboda and **Agata Hinc** of demosEUROPA propose three approaches to budget reform that could accelerate the low-carbon transition and win support from the countries of central and eastern Europe, with Hungary and Poland well-positioned to lead on this agenda in the budget review process.

Jan Seifert of Heinrich Böll Foundation argues for an approach that maximises the opportunities for budget reform via action on annual budgets as well as the next financial perspective, highlighting the role of the European Parliament as a proponent of change.

While our focus in this publication has been on how the reform of the EU budget can engage with the politics of Europe's domestic decarbonisation effort, any new proposals for reform will also need to direct targeted low-carbon support for those economic sectors fearing change, notably including the existing recipients of EU spending. Key to this would be engagement with regional governments and cities to support their role as motors for low-carbon investment.

Similarly, it is increasingly evident that EU budget support for the agricultural sector will need to reflect the wider climate agenda, including the testing challenge of effective adaptation to increasingly severe climate impacts.[9] Given their complexity and political importance, these issues are worthy of further analysis and discussion in their own right, and lie beyond the scope of this publication. But it is our contention here that a focus on Europe's low-carbon transition will provide a revised EU budget with a sufficiently broad and future-focused remit to ensure the effective engagement and support of all key stakeholders. A situation in which investment in the low-carbon economy is limited by a continuation of the status quo will suit nobody, particularly not those regions and sectors most at risk from a changing climate.

conclusions

The EU's efforts to reform its budget during 2010 will need to be situated within the context of its objectives for 2020. Both the EU's climate change targets and the economic objectives it will finalise in its EU 2020 strategy will share this decade-long pursuit, and must be advanced together. Within that context it will fall to the European Commission to publish outline proposals for budget reform that can deliver on these twin decade-long efforts at transformational change. It can do so drawing from the clear mandate for reform provided by the responses to the 2008 budget review consultation, which identified climate, energy and competitiveness as the top three priorities for future EU budget spending.[10]

While the European Commission has the formal lead among the Brussels institutions, the willingness of member states to engage positively on this agenda will be crucial. They too have a responsibility to their citizens to ensure that budget reform proposals can deliver action on shared challenges. But the inertia inherent in budget politics means that ongoing advocacy in support of a low-carbon EU budget will undoubtedly be required from civil society and private sector alike to ensure that all EU institutions and member states feel empowered to take far-reaching reform decisions.

Yet if democratic influence from below will be required to secure budget action, so too must EU institutions and member states seize this tangible opportunity for positive engagement with Europe's citizens. A budget fit for the future would be a more direct demonstration of the EU's added value than any of the institutional reform efforts of recent years. This is an opening where the European Parliament can work closely with new Council President Herman Van Rompuy to actively shape the agenda, ensuring that the need for a low-carbon budget is firmly embedded into the priorities of both the European Commission and Council alike.

For as European Commission President Barroso underlined at the start of the budget review process, this is a "once in a generation opportunity to make a reform of the budget", adding that "This is about much more than money. This is about a vision for Europe."[11]

That is indeed the challenge of 2010 and the coming decade. The message is positive from the viewpoints published here: bold budget reforms will unlock clear low-carbon results.

delivering EU action on climate change

David Baldock and Camilla Adelle
Institute for European Environmental Policy

The EU budget needs to support the overall vision of building a low-carbon economy, providing positive impetus for investments and actions where individual member states are unlikely to move fast enough or far enough on their own.

David Baldock is the Executive Director of the Institute for European Environmental Policy (IEEP). An authority on European agricultural policy and the environment, he has an active interest in sustainable development and the external dimension of European policy. Current external commitments include membership of the European Commission's high-level group on the competitiveness of the car industry in Europe.

Camilla Adelle is a Policy Analyst at IEEP in the environmental governance team. She is a specialist in EU sustainable development and policy integration with a particular interest in the EU budget.

There is a sharp contrast between the significance of climate and energy issues for the European agenda and the resources devoted to them in the EU budget. Climate change commitments have grown at EU level in response to scientific concern and rising political awareness but the use of the EU budget to catalyse action has remained very limited. Setting aside the question of its international responsibilities, does the EU have the means to deliver its own decarbonisation?

Thus far, the challenge of financing a dynamic climate and energy policy has not been addressed squarely. This chapter discusses why and how the EU budget should contribute. It discusses the need for financing of both adaptation and mitigation activities within Europe, considering in particular the 2008 Climate Action and Renewable Energy (CARE) package of European legislation.

headline cost estimates

We are still in the early stages of estimating the costs of tackling climate change and there is much work to be done in a range of areas.[1] In 2006, the Stern Review[2] concluded that whilst the short-to-medium term costs of investing in mitigation are likely to be high (as much as one per cent of global GDP per annum), the longer-term costs of inaction could be as high as 20 per cent of GDP.

More concretely at EU level, the European Commission estimated the direct economic costs of compliance with the CARE package[3] as ranging between 0.25 and 0.71 per cent of EU GDP in 2020, depending on the extent of use of policy instruments such as renewable energy trading and the use of credits from the Clean Development Mechanism (CDM).[4] Additional national commitments will add to this cost.

The European Commission's attempts to estimate more precise costs for climate

adaptation remain in their infancy. Neither its 2007 Green Paper[5] nor the 2009 White Paper and accompanying Impact Assessment[6 7] made any serious attempt to estimate potential costs. This is despite the European Parliament[8] calling for a study of the economics of adaptation. Major advances are needed to address the topic not least due to the limits on quantification and valuation.[9]

Nonetheless, a number of recent studies are starting to shed light on the issue. In general, they show that while the net impacts on Europe may be modest there will be significant differences in regional impacts. The European Commission's Regions 2020[10] report concludes that a total of 170 million people live in regions most affected by climate change in parts of the south and east of Europe. Additionally, the impacts of climate change will be felt disproportionately in regions with low GDP per capita, which have a lower capacity for adaptation. What is clear at this stage is that the costs of both mitigation and adaptation in Europe will be significant and sustained.

why the EU budget?

There has been an increasing recognition of the need for action via the EU budget by governments and other stakeholders across Europe. Climate change and energy security were the top two priorities for future spending identified in the consultation on the budget review in 2007-2008.[11]

Alongside this growing political interest, there are strong theoretical arguments for using the EU budget in the fight against climate change:

- The transboundary nature of climate change means that there is added-value from EU action. The principle of subsidiarity suggests that the EU should act only if the objectives cannot be achieved effectively by individual member states alone and can be better achieved by the community as a whole. There is a clear case for EU action given the public good nature of a stable climate, which would otherwise result in an undersupply of mitigation action by individual member states.

- The principle of common pooling of resources for research and development is logical on grounds of resource efficiency. Research efforts need to be targeted, reach a critical level of investment, and avoid unnecessary duplication or wastage. This is a particularly powerful argument for EU funding of high cost energy technologies, such as carbon capture and storage (CCS).

- The principle of cohesion, employed to address economic and social imbalances between member states, is also relevant. Such an approach could help smooth the unequal costs experienced by different member states in pursuit of shared community objectives. In this respect, EU funding could provide extra leverage and incentives to complement a primary regulatory approach,[12] as well as sharing the costs of adaptation in the worst affected, and poorer, member states.

- Similarly, the EU principle of solidarity between member states can also be invoked. The provision of emergency relief to individual regions or member states in the event of major natural disasters is a distinct type of EU action, which could have considerable implications in the context of member states' adaptation to climate change.

Public expenditure is of course only one of a range of potential policy instruments to secure action on climate and energy goals. Others include regulation, market-based instruments, and voluntary agreements. In some cases, policy objectives may be secured effectively and efficiently without the use of public spending, which is subject to many competing demands. However, there are numerous circumstances where neither hard regulation nor soft law is enough and financial incentives are required to induce or

support the necessary policy responses. In some cases member states may need to be incentivised to adjust their policies to EU priorities.

Here there is a role for the EU budget and associated mechanisms, such as soft loans from the European Investment Bank (EIB). These will need to be well targeted. The EU budget is small relative to the scale of investment required to complete the transition to a low-carbon economy, an endeavour akin to a new industrial revolution. The types of investment and expenditure that it can support are also subject to limitations due to the regulations that control it and the need to avoid projects that confer undue competitive advantage on individual enterprises and member states. Nonetheless the EU budget is subject to a level of political direction and tuning that makes it a useful instrument to support other policy measures.

EU budget and the CARE package

The 2008 CARE package of legislation, including the revision of the EU Emissions Trading Scheme (ETS), is a step forward in moving the EU towards the current targets of 20 per cent of renewable energy in the energy mix and a minimum 20 per cent reduction in carbon emissions by 2020. However, these regulatory mechanisms alone cannot be relied on to be effective.

A clearer link between EU spending and the achievement of the EU's domestic climate targets would be beneficial. Smart investments in the low-carbon transition could play a major catalytic role in the delivery of EU targets and the negotiation of any further measures that are needed, such as an increase in the carbon emissions reduction target to 30 per cent in the event of a global climate deal. For we can see in the CARE package a number of elements that reflect the need to match policy obligations with the economic capacity of different member states:

- In the Renewable Energy Directive[13] national targets have been allocated according to the GDP and national circumstances of each member state. In addition, countries meeting these targets are allowed to sell tradable renewable certificates to those falling behind on their targets.

- The revision of the ETS[14] aims to strengthen the EU carbon market for the third phase from 2013 and increase the auctioning of allowances. Here, 10 per cent of the emission quotas are to be reallocated for the purposes of solidarity and growth, particularly to help poorer member states in central and eastern Europe in their transition to a low-carbon economy. Similarly, an additional two per cent is to be redistributed among nine countries that had experienced large reductions in carbon emissions as a result of their economic transition from the communist era. The ETS was also used as a source of funding for the EU's CCS programme, with 300 million allowances set aside for allocation to the demonstration of CCS and innovative renewable energy technologies.

- Finally, the Effort Sharing Directive[15] sets individual greenhouse gas reduction targets for member states, with targets allocated on the basis of GDP. Newer, poorer member states have in general been allowed to increase their emissions while older, wealthier member states are required to make more significant cuts.

By means of these approaches, the EU has attempted to share the efforts and costs of meeting its climate objectives without recourse to the EU budget. This has proved to be a viable approach to date, albeit a rather tortuous one, but it suffers from the lack of visibility associated with more direct economic support measures.

Indeed, in all of these areas there was strong push back from those industry lobbies and member states that felt that they were too costly for their present circumstances. This will

be repeated if targets are to increase as part of international efforts. Whilst this tension is to some degree unavoidable, a more explicit political understanding about the scope for assistance under the EU budget would help to ensure that these measures are implemented and can be built on further.

By early 2009 it was already clear that overcoming policy stagnation on climate and energy policy issues is a challenge for some member states.[16] Yet across Europe the targets are repeatedly highlighted as stretching, especially as a consequence of the economic downturn. Public expenditure will be needed on a larger scale than anticipated in order to accelerate the pace of new investment.

While there is an understandable reluctance to commit public funds until market mechanisms have been fully explored, the time constraints for action on climate are severe. It will therefore be critical to deploy European funding to catalyse action in member states, especially in those countries and regions that are most reluctant or less able to pay the costs of implementing climate change mitigation measures.

Europe faces a new economic reality: while citizens are anticipated to remain concerned about climate change, they will want to prioritise action that helps to deliver economic stability and jobs into the future. In addition, many of the most cost-effective mitigation opportunities are in the new member states where climate is not necessarily a key objective. Targeted transitional assistance to accelerate energy conservation initiatives, improved infrastructure and assistance to sectors facing severe and rapid dislocations will help to reduce impediments to further action.

Indeed, a clear signal that there is greater willingness at EU level to reinforce a primarily regulatory approach with supportive investment would balance the overall strategy to addressing climate change mitigation. At the same time it could form a central plank of a green recovery, helping regional economies in their transition to a low-carbon future while stimulating greater social and economic cohesion.

addressing the adaptation challenge

Adaptation requirements will be highly uneven within the EU and there are solidarity and cohesion considerations pointing to a sharing of this burden. There is already scope for addressing adaptation within a number of different EU funding instruments, including the European Regional Development Fund, the Cohesion Fund, and the Common Agricultural Policy (CAP). As with mitigation measures, the possibility has also been raised of at least part of the revenues from the auctioning of emission allowances being targeted at adaptation within member states. What is absent is a broader strategy about how existing or new funds can contribute to community-level adaptation priorities. Adaptation issues need to be taken into account in regional development strategies, infrastructure planning, agricultural production, the management of habitats for vulnerable wildlife species, and many other ways.

There is also a potential need for more innovative adaptation measures. One of these could be a revision to the existing instrument of the solidarity fund set up in 2002. This fund is mobilised "when a natural disaster with serious repercussions on living conditions, the natural environment, or the economy in one or more regions or one or more countries occurs".[17]

It is currently unclear whether this fund could be used to address some of the more localised and acute but longer-term consequences of climate change. In 2006 the European Parliament pressed for the definition of 'natural disaster' to be extended to include more protracted threats such as droughts,

desertification, or the development of urban hot spots where the elderly and the very young are particularly vulnerable.[18] While it would be necessary to define fairly tightly the kind of events that qualified for aid, it would certainly be helpful to have an instrument that is more flexible and attuned to shorter-term problems.

conclusions

The costs of meeting the EU's present mitigation commitments and of adapting to coming climate impacts will be considerable. Much of the finance required will come from energy consumers, the private sector, revenues extracted via the emissions trading mechanism and national governments. However, with a clear European framework and objectives for climate policy already in existence, there is a corresponding need for financial mechanisms at the community level to provide a more balanced set of policy instruments.

Only in a few instances, such as the spring 2009 European Economic Recovery Plan, has there been significant funding offered from the EU budget, in this instance for investment by member states in energy infrastructure, renewables and CCS. The result is that the budget fails to support in any substantive ongoing way the delivery of targets that will be demanding for many governments to meet. This is both a policy failure and a political risk.

The EU budget needs to support the overall vision of building a low-carbon economy by ensuring that expenditure is consistent with and enabling of the achievement of climate policy goals. It needs to provide positive impetus for investments and actions where individual member states are unlikely to move fast enough or far enough on their own. This is particularly the case at a time of restricted national government expenditure, limits on the availability of credit to the private sector, and relatively low carbon prices.

At a basic level this is a question of aligning existing EU funding mechanisms to new requirements, with corresponding changes in objectives, guidelines and rules. At the very least, the EU budget must not undermine climate change objectives.[19] Therefore there is a need to invest in climate-proofing the EU budget in relation to the CAP and structural funds, the two largest items of EU expenditure.

Beyond this, there is need for increased targeted climate funding. EU interventions can pump prime critical initiatives, maintain momentum when the investment climate falters, help to offset the burden on the least prosperous regions of the EU, and lever investment from national governments.

There is a growing recognition that the EU budget has a role to play in all of these areas, but no clear European approach to financing the transition to a low-carbon economy. A strategy which maps the role of the EU budget, the EIB, and revenues generated from emissions trading must now be developed to provide confidence in the EU's domestic decarbonisation.

a European budget for the future

Jesse Scott
E3G

The manner in which an organisation raises and spends its financial resources is a key test of its priorities, and, at present, the EU fails miserably. Europe will be unable to ensure its security and prosperity unless it better aligns its resources with the challenges it faces.

Jesse Scott leads work on 'Europe in the World' and engagement with EU institutions in Brussels for environmental NGO E3G (Third Generation Environmentalism). Her work currently focuses on financing for low-carbon innovation and infrastructure in the context of the EU budget reform debate.

The problems that will dominate the 21st century, from terrorism to climate change, the regulation of financial markets to mass migrations and organised crime, cannot be solved by nations acting alone. They require a pooling of sovereignty. The European Union is the world's most sustained and far-reaching experiment in the practical and political realities of sharing sovereignty and its continued success matters to everyone, not just to Europeans.

Yet, over recent years, the EU agenda has been dominated by an inward focus on institutional matters, coupled with a lack of confidence in its own ability to shape affairs on the world stage. The success story of the extension of security and prosperity across the continent has become the limit of our political imagination, rather than the starting point. To succeed in the next 50 years, Europe must now look to its future, not its past. It has to embrace an outward-looking agenda, and be prepared to use its hard-won soft power on the international stage.

Back in 2006, in our pamphlet *Europe in the World*,[1] E3G examined the key political choices facing the EU. We argued that these key challenges for the 21st century would be met only if the EU could redefine success; build intergenerational cooperation; achieve energy security and climate security; and invest in a successful China.

Alongside these external challenges, we identified a key area for action under the EU's own control: the EU budget, one of the most powerful tools in Europe's policy armoury. The manner in which an organisation raises and spends its financial resources is a key test of its priorities, and, at present, the EU fails miserably. Europe will be unable to ensure its security and prosperity unless it better aligns its resources with the challenges it faces.

a real budget review required

European Commission President José Manuel Barroso has called the EU budget review a "once in a generation opportunity".[2] But this will only be the case if debate and reforms begin with a fundamental examination of the policy objectives.

Some commentators have suggested that the budget review must start with a debate on a limit on overall resources. However, the EU budget represents close to just one per cent of European GDP, and this proportion has consistently fallen over the last 20 years. The danger of the budget review is not that it will result in an unsustainably expanded budget but that it will fail to set clear priorities. Focusing on spending limits is to declare an artificial taboo and invites a return to the inertia of disputes around net-balances between payments and receipts for individual member states.

The budget review and upcoming financial perspective negotiations will set the outlines of European spending until 2020. They must therefore reflect the profound changes that have taken place in Europe and the world in the years since the historical lines of the current framework were decided in the 1980s.

shaping the debate: delivering EU public goods

At €120bn a year, the EU budget is relatively small and needs to be a targeted mechanism, intended primarily to deliver European public goods. It should support projects that proactively shape change and that provide clear additional benefits compared to action by individual member states. It must create maximum added value for the common European interest.

An intelligently focused EU budget can set the standard for member state public spending to pursue. It should integrate public interventions and investments by European industry and other stakeholders. It should be designed to open up new business opportunities and leverage private investment from around the world. This has to happen in particular in the fields of clean energy, resource efficiency, intelligent infrastructure and climate proofing in the poorer member states. The budget should also invest through the Neighbourhood Policy in managing climate impacts and other risks to stability on European borders.

Early investment will pay the greatest dividends. The EU can and should achieve major shifts in structural and cohesion funding, research and development and adaptation, all prior to 2014. Early decisions on common objectives and means should result in better outcomes than those available under the national wish lists and political pressures of eleventh-hour negotiations. This argues for a budget reform process that is driven by an open discussion of European priorities, and one that rigorously focuses on areas where European action adds value.

Following the positive result of the second Irish referendum, an EU budget for 2020 must reflect the evolved institutional shape and missions of the EU under the Lisbon Treaty. The treaty confirms energy and climate change as fundamental challenges, prioritises research and development, and strengthens Europe's global role with new capacities for external action. No European country would have realistically committed to such an ambitious agenda for global influence and change if they had not been part of the EU. Without a matching budget process there is a danger that the burden of delivery will fall on the larger countries, and will constantly be traded off against national priorities and short-term interests: Europe has willed the ends; now it must will the means to deliver them.

This will be undoubtedly the central challenge of the second term in office for President

Barroso. In his manifesto for re-election[3] he recognises the paramount importance of reforming the EU budget to focus on genuine European added value and on resolving market failures. Success on reforming the budget will be the key issue against which he will be judged.

sustainability, energy and climate change

Climate change is challenging the foundations of European peace and prosperity at home and internationally. Europe has rightly taken a global leadership role in tackling climate change, and an ambitious approach can deliver multiple benefits, making Europe a world-leader in the transition to a stable climate and in the technologies that will achieve this. Sustainability, in Europe and globally, with its economic, environmental and social dimensions, must be the overarching and fundamental goal of the new EU budget.

This entails a step change in commitments: there is little funding, and no clear place in the current budget, for this century's urgent global priority of low-carbon technologies. Effective connections need to be made between climate change and other European policies, in particular the Lisbon competitiveness agenda. In recognition of the scale of the climate and energy challenge, we should move from the current model of supporting projects that are proposed bottom-up, towards EU-scale programmes specifically targeted to achieve concrete and transformational results.

The current EU budget will also need to be reformed. Today it increases rather than reduces EU emissions, due to investments in high-carbon transport and energy infrastructure, and the impact of intensive farming practices. European structural programmes should instead focus on promoting intelligent infrastructure and climate proofing in the poorer member states, and on managing the risks to stability on European borders through the Neighbourhood Policy. The Common Agricultural Policy (CAP) must likewise focus on combining climate adaptation measures with the protection of European public goods.

low-carbon investment

Moving to a low-carbon economy will require shifting trillions of Euros in the EU from high-carbon to low-carbon investment. Europe will build 500-800 GW of new power stations by 2030 as it replaces its aging capacity; this will cost over €1.6 trillion. Most of this will be private investment shaped by regulation and national policy decisions, but there remains a clear and critical European investment component.

The European electric grid needs to be strengthened, modernised and extended to bring in renewable energy from the North Sea, North Africa and Eastern Europe into major areas of population. A network of carbon dioxide transport and storage will be needed to enable fossil power stations to become carbon-neutral. Major new technologies such as bulk power storage and concentrated solar thermal power will need to be demonstrated at a scale well beyond the means of any one European country.

Europe is already failing to invest in its low-carbon plans. The ambitious Strategic Energy Technology plan agreed in 2008 remains unfunded; so do the proposed Baltic Energy Market Interconnection Plan, the Mediterranean Energy ring and the North Sea Offshore Wind Network. Plans agreed at Head of Government level in 2007 for 12 CCS demonstration plants will only go ahead through an independent initiative of the European Parliament.

opportunity in the economic downturn

The €5 billion European Economic Recovery Plan agreed in December 2008 by heads of government linked the urgent problem of economic recovery to EU level public investment in low-carbon energy.[4] Similarly, President Obama's stimulus package aims to double US production of renewable energy in three years, and to carry out energy efficient retrofits for 75 per cent of government office buildings and the weatherproofing of some two million homes, with the creation of nearly half a million new 'green collar' jobs.

In both the US and Europe, the economic downturn has given new focus to concerns that public and private energy research budgets have declined substantially since the 1980s. And while many countries are now starting to look for exit strategies from the public investments made to shore up failing economies, there is a risk that we fail to see the ongoing need to develop new routes out of the economic crisis. A return to high-carbon growth is not a recovery strategy but a recipe for further economic pain.

making the transition

At a time of financial crisis, revisiting how we use the EU budget may be less difficult than seeking political consensus for new spending at the national level. If the reform option is not taken, member states will effectively have to pay twice: for climate and energy investments at home, plus their contribution to an ineffective EU budget.

One option would be to establish a new (ad hoc and time-limited) European fund for energy and climate security, co-financed with member states, for the industrial scale demonstration and market replication of advanced low-carbon technologies. The revenue generated by auctioning EU emission permits could be one source of reliable revenue for such a fund.

Europe in the world

Europe faces formidable challenges of migration, instability and poverty in its immediate neighbourhood: the arc running from Russia and the Ukraine, through the Balkans, southeast Europe, the Middle East and the Maghreb, to Morocco. Events in these regions are likely to have immediate and profound consequences for Europe, and climate change will exacerbate all these problems.

Engaging and promoting stability in these regions cannot be achieved solely with money, but does require adequate funds to make a difference. These should be available to support the actions of the new High Representative and the External Action Service established by the Lisbon Treaty. If Europe's policies are not seen to work on its doorstep, they will not be credible anywhere else.

Beyond its immediate neighbourhood, European action is critical in promoting stability, peace and development in Africa and other developing regions. The common budget can also promote a European model of human rights and democracy, developing the EU's diplomatic, peace building and military capacity for peacekeeping and interventions to uphold the UN's principle of "responsibility to protect".

Large scale financing is also needed outside Europe to cement a global deal to control climate change. Europeans will not have climate security unless large developing countries such as China and India begin to reduce their greenhouse gas emissions. These countries are still poor, have low per capita emissions and have contributed far less to climate change than Europe. Without transitional funding to help their move to a low-carbon economy they will not join any global effort to tackle climate change.

Estimates are that Europe could have to spend around €30 billion of a likely global requirement of €100 billion every year to help these countries decarbonise, as part of a shared responsibility with other developed countries.[5] The EU budget is a logical vehicle through which to fairly share these costs between countries.

building public support

Budget reform should be a constant process as priorities evolve: the European Parliament has a key role in driving this and in addressing the deteriorating relationship between the EU and its citizens, whose increasing remoteness and hostility to common institutions reflects a failure to communicate the benefits of shared European action.

In the past, EU budget setting has been an exercise in the defence of historical political trade-offs between the different vested interests of member states; rather than a division of resources according to the challenges facing Europe. The reform of the budget must now provide a real demonstration that European institutions are accountable to the views of citizens. The current budget review should therefore incorporate a Europe-wide participative budgeting process.

In its simplest form this could involve the European Parliament organising a deliberative polling process for a representative sample of European citizens to discuss the balance of budget choices. This well-tested, robust and sophisticated process, which was successfully piloted at a European scale in 2007,[6] would allow a sample group of European citizens to engage in debates with experts before expressing their preferences over the future of the European budget. MEPs should then take responsibility for engaging their constituents with the subsequent discussions in the EU institutions. Member state officials and political leaders should also have to justify their negotiating positions in the light of these assessments of citizen preference.

The entry into force of the Lisbon Treaty marks the end of a divisive era of institutional reform, achieved at the cost of a deepened democratic deficit. During 2010 the EU institutions and member states will define their priorities for the next decade via the new EU 2020 strategy. In this they must remember that the task of reconnecting the EU to its citizens remains urgent: for the immense challenges facing Europe today will only be tackled successfully with their support. A refreshed EU budget that addresses citizens' concerns and involves them in shaping EU priorities would be a direct and visible means of earning a renewed democratic consent.

building business confidence

Arif Shah
Business for New Europe

In this time of great economic uncertainty, there exists an enormous opportunity to embark upon a new era of economic growth, one that is based on the transition to a low-carbon economy. The EU is the world's largest market, and it must have confidence in its own ability to make this transition happen.

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As we inch our way out of the worst economic crisis since the great depression, the world is presented with numerous challenges. At the top of this list is the issue of climate change.

The EU has recognised the scale of this threat, and has been at the forefront of global efforts to establish the political frameworks and policy instruments necessary to tackle climate change. It has displayed the seriousness it attaches to this issue by agreeing to the ambitious 20-20-20 targets of the Climate Action and Renewable Energy (CARE) package, and has promised to go further provided that other countries take on similar commitments. In addition, a report published by The Climate Institute and E3G[1] revealed that European countries such as France, UK and Germany are already leading the transition towards a low-carbon economy: and benefiting economically in the process.

However, far more needs to be done across the EU to secure a low-carbon transition that would give confidence to governments and business, and play a significant role in improving the EU's competitiveness. Unfortunately, those facing difficult decisions in the context of the economic crisis all too often overlook this imperative. As such, a crucial test of the EU's commitment will be how it uses the coming opportunity for budget reform to demonstrate its willingness to incentivise the low-carbon transition.

delivering on the budget review

Over four years ago, the European Council took the much needed but long overdue decision to launch a review of the EU budget.[2] This decision was taken against a backdrop of growing cynicism over the procedures, size, and allocations of the budget, as well as a genuine desire to meet the new global challenges posed by globalisation, climate change, energy security and migration.

As part of the same effort, the European Commission launched its consultation process on the budget in September 2007,[3] which lasted until April 2008. This wide-ranging review promised "no taboos" and covered all aspects of the EU budget including its revenue-raising and expenditure plans. Its aim was to identify how the budget can be shaped to best serve EU policies and meet the challenges of the decades ahead.

The stakeholder inputs to the budget review highlighted the deep desire for the EU budget to focus on the challenges of climate change, energy, and competitiveness.[4] But at a time when the EU needs to help chart the course from economic difficulties to a new low-carbon economy, there has since been an unwelcome and lengthy delay in the release of the European Commission's response to the budget consultation. In doing so, the Commission has missed an opportunity to build the confidence of European citizens and companies.

positive sum negotiations?

Given the number of member states involved, developing a consensus on the EU budget is a politically fraught and contentious process. This was highlighted by the eleventh-hour negotiations required to endorse the €862bn seven-year package for 2007-2013. Although negotiations had commenced in 2003, a deal on the budget was only obtained in December 2005. As a result, despite the European Commission's attempts to rebrand the different areas of the EU budget, it remains dominated by historical areas of focus such as the Common Agricultural Policy (CAP) (providing subsidies for farmers and rural development) and cohesion funding (aimed at helping the new member states and disadvantaged regions catch up economically).

While targets linked to the EU's Lisbon Strategy modernisation agenda have been included, the budget fails to adequately address the diverse domestic challenges brought by globalisation and demographic trends, or the EU's role in the world as a promoter of peace and security. Therefore, it is essential that the EU budget of the future places investment in research and development, innovation and technological progress at its core. As a recent publication from the Swedish Chamber of Commerce makes clear, we have to move "from CAP to competitiveness".[5] The areas of environmental protection, climate change, and energy security are obvious targets for this investment. All are crucial public goods that need to be addressed at EU level, and all provide opportunities for a new green revolution.

In the political context, a focus on climate and energy also provides a potential means of unlocking the budget negotiations. It does so by providing a coherent area of added value for the budget going forward. Discussions regarding potential areas to spend on, and those to draw back from, can be approached far more positively within such a framework.

investing in European business

In this time of great economic uncertainty, there exists an enormous opportunity to embark upon a new era of economic growth, one that is based on the transition to a low carbon economy. The EU is the world's largest market, and must have confidence in its own ability to make this transition occur.

The business community have already recognised the benefits of this, and companies from a diverse range of sectors are investing in a more sustainable future. For instance, Centrica has recently built the world's largest offshore wind farm and will invest more than £1 billion between 2008 and 2011 to improve the energy efficiency of its customers' homes, while Eurostar has pledged to cut carbon emissions by 35 per cent per passenger by 2012. We highlighted these and other success

stories in July 2009 in a collection of viewpoints from leading UK business leaders entitled *A Climate Mission for Europe: Leadership & Opportunity*.[6]

But business cannot ensure the low-carbon transition by itself. A coherent EU policy framework and targeted financial support will are needed. Therefore, we want to see urgent progress made on the budget review. The views of UK business on this matter were set out in our report *A Budget for Business*.[7] Amongst other factors, the report highlighted the fact that business provides the tax revenues that go towards funding the EU, and delivers the economic growth that underscores the bloc's long-term success. As such, business has a legitimate interest in seeing the EU budget spent wisely. The report helped develop a clear consensus, with a call for the following themes to be part of any reform of the EU budget:

1. Greater expenditure on policy priorities is needed to tackle the challenges of globalisation, in particular climate change and world poverty, thereby cementing the EU's leadership in these areas;

2. A focus on the EU's competitiveness vis-à-vis emerging economies, with a special emphasis on the need to invest in skills, as well as research and development (investing in measures that help complete the Lisbon competitiveness agenda, especially in financial services, telecoms and energy);

3. The CAP should represent a much smaller percentage of the overall budget in both absolute and relative terms. More than a third of the current budget is spent on a sector that makes up just two per cent of economic activity and five per cent of employment in the EU. The CAP is expensive and wasteful. Moreover it has a damaging effect on the markets of the poorest regions of the world;

4. The budget should be capped at its current level; and

5. There should be no major changes in the current revenue-raising arrangements.

Such an approach would, in our view, help the EU engage with the business community in pursuit of our shared goals for the future, delivering an ongoing framework for a greener, low-carbon economic recovery.

economic recovery, from Europe to the world

At the global level, world leaders gathered at the G20 meeting in London in April 2009 pledged to "make the best possible use of investment funded by fiscal stimulus programmes towards the goal of building a resilient, sustainable, and green recovery. We will make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure."[8]

The EU has been a clear leader in this transition with its €200 billion stimulus package, announced in November 2008, dedicating a significant proportion of resources to green programmes. This included measures such as the re-programming of structural funds to devote a greater share to energy-efficiency investments, reduced VAT for green products, national funds for the auto industry to speed the development of greener vehicles, and increased investment in energy infrastructure, renewables and carbon capture and storage technologies.

While this symbolised that the low-carbon economy has become a priority for Europe, progress within the EU budget will play a vital role in the continent's long-term response to the test posed by climate change.

making the spending transition

In the EU budget of 2009, 45 per cent (€60 billion) of the €134 billion expenditure was dedicated to research, innovation,

employment and regional development. This amount included €12 billion in funds for research, and €0.5 billion (an increase of 22 per cent from the previous year) for the EU's Competitiveness and Innovation programme to finance sustainable technologies, in order to enhance competitiveness and aid the transition to a low-carbon economy. These trends will continue during 2010, with Trans-European transport and energy networks seeing their funds increase by 10 per cent.

Yet, in late 2009 the European Commission outlined the need for a threefold increase in funding for energy research over the next decade.[9] The plan would allocate €6 billion for wind energy, €16 billion for solar energy and €9 billion for bio energy research. Furthermore, €2 billion would be earmarked for a smart grid system while €13 billion would go towards Carbon Capture and Storage for 12 pilot projects.

While the EU budget cannot be expected to bear the burden of this expenditure on its own, it would represent a far more effective use of resources when compared with spending on the priorities of yesteryear, such as the CAP. There is widespread disillusionment, particularly within the business community, about the enormous amounts poured into this area, which delivers very little in return.

conclusions

With a decision on future budgets around the corner, the EU must decide on a potential shift in resources. The stakeholder responses to the European Commission's consultation on the budget review were clear: the top priorities for action must be climate, energy and competitiveness. It was recognised that spending on cohesion policy needs to be re-examined and concentrated on the most deprived areas, instead of serving as a redistribution mechanism within richer member states. Similarly, CAP spending was clearly identified as an area where spending cuts should take place.[10]

A ceiling has already been implemented on financial resources for the CAP in the current budget framework, and we believe the next multi-annual EU budget must set a clear course for a transition from agricultural subsidies to increased funding in support of EU goals on climate mitigation and adaptation that impact rural and agricultural communities. The savings made can be more efficiently reallocated towards funding energy, climate, research and other initiatives which would see Europe move more quickly along the path to a green economy, catalysing investment from the private sector and building confidence across the continent.

While climate change is often called the greatest challenge, the transition to a low-carbon economy presents the greatest of opportunities for our generation. We cannot afford to ignore either, particularly within the context of the EU budget.

the big win within reach: energy efficiency

David Orr
National Housing Federation and CECODHAS-Housing Europe

Investments in improving the energy efficiency of the EU's existing housing stock make economic, social and environmental sense. All we need now is for the EU to turn policy logic into Euros and ensure the right financial and legislative incentives are in place to support the big retrofitting drive ahead.

David Orr is Chief Executive of the National Housing Federation in England, and President of CECODHAS-Housing Europe, the European Liaison Committee for Social Housing. He also sits on the board of The Housing Finance Corporation. He is a member of the Social Investment Task Force, which supports the development of social investment in the UK.

The climate agenda during 2009 was dominated by the preparations for the UN negotiations in Copenhagen. The EU aimed to play a leading role using its commitment to a minimum reduction of carbon emissions by 20 per cent by 2020 as an indication of its own ambition.

Yet the EU's headline commitments require on the ground delivery to provide a truly credible example of its international leadership. And there is no more pressing area for action than energy efficiency; an area that has seen growing EU legislation but limited EU spending.

That's why we at CECODHAS-Housing Europe published our own 'Copenhagen Commitment[1]', setting out how we can help deliver a step change in EU action on energy efficiency in the housing sector. Contrary to other carbon intensive sectors, the technical and institutional solutions have been identified, and all that is needed to trigger this transformation are the right financial incentives.

The housing boom of the last two decades resulted in urban sprawl and house price increases while locking in inefficient energy practices. Now the EU needs to see a retrofitting boom that will deliver sustainable economic growth and job creation, fight climate change, improve living conditions and increase the affordability of housing.

But such an approach will require considerable up-front financing. Coming up with this ready cash will call for creative thinking that may take EU budget planners, financial institutions and energy utilities outside their traditional comfort zones. Without financing, EU action on energy efficiency will remain stuck at the level of aspiration, with no prospect for delivery.

This chapter therefore looks at how the political vision of the EU must be backed up by a sufficiently radical mobilisation of

resources from the EU budget to leverage equivalent budget shifts at national and local levels throughout the EU.

The delayed budget review is the prime opportunity for EU leaders to ensure that EU funding serves as a catalyst in the low-carbon energy transformation, and that their policy leadership on climate change has a positive impact on the ground in the short term.

investment in housing and energy efficiency is a win-win-win option

Investments in improving the energy efficiency of the EU's existing housing stock make economic, social and environmental sense. It is also the best way of engaging and empowering citizens in the still too abstract issue of climate change.

Although housing policy is a local issue and not strictly speaking an EU competence, energy security and climate change mitigation are key EU public goods, with growing EU responsibilities. The residential sector and commercial buildings account for 40 per cent of the EU's total final energy use and carbon emissions,[2] with 67 per cent of energy consumed in buildings in the residential sector. The sector also has significant untapped potential for cost-effective energy savings which, if realised, could mean that in 2020 the EU will consume 11 per cent less energy. Additionally, this does not take into account the potential of housing as an energy producer through the installation of renewable energy generation.

Radically reducing the energy consumption of Europe's social and cooperative housing sector, which accounts for 25 million units or 12 per cent of the residential stock in the EU, is the logical step to take to trigger an energy transformation across the entire residential sector. In our Copenhagen Commitment manifesto, we detail how in the period 2010-2020 we can increase the annual eco-efficient refurbishment rate to four per cent (the equivalent of 800,000 units) in Europe's social and cooperative housing stock alone.

In addition to the energy savings and reductions in carbon emissions that would come from such an investment, there would also be profound social benefits. Energy efficiency projects can be deployed rapidly, creating labour-intensive sources of employment and local economic spin offs. We calculate that this would create 200,000 jobs per year directly, with an additional 140,000 jobs indirectly created at local level.

Additionally, the inhabitants of newly retrofitted energy efficient properties then benefit from the resulting reduction in energy poverty, a key cause of bad health and social exclusion. National treasuries likewise benefit from a corresponding fall in the need for energy poverty relief payments and direct energy subsidies.

All of these positive outcomes make investment in energy efficiency a logical policy choice, but the reality of the up-front financing barriers means it is yet to demonstrate its potential at mass scale. The estimated total annual investment requirement for the retrofitting and renovation boom outlined above is €16 billion,[3] with public financing required to kickstart the larger private investments that will deliver this change.

turning policy logic into Euros

To date, the most visible outcome of EU energy efficiency policy is increased legislation: one element of the 2008 Climate Action and Renewable Energy (CARE) package was an effort-sharing agreement for carbon emission reductions in sectors including housing that are not covered by the emissions trading scheme (ETS). Energy efficiency in buildings was also a priority identified in the 2006 Energy Action Plan with the largest cost

effective savings occurring in the residential sector; a number of implementing measures such as the Energy Performance of Buildings Directive (EPBD) then followed. We also have the End-use Energy Services Directive, the Renewable Energy Directive, and the Ecodesign of energy-using products directive. However, without the addition of an over-arching and binding target for energy efficiency and the right financial instruments, legislation alone will have a slow and limited impact. The EU has therefore also introduced a number of financing opportunities, which aim to help deliver these objectives.

In parallel to the EPBD, increased funding has been made available for know-how and best-practice exchange initiatives, research in construction and refurbishment methods and materials and, more recently, eco-efficient refurbishment works and the incorporation of renewable energy in existing buildings. This financial support is channelled through a range of funding programmes managed at European level such as the Intelligent Energy Europe programme, the European Research Framework and through nationally managed funds such as the European structural funds (primarily the European Regional Development Fund (ERDF) and the European Social Fund (ESF)). In addition Europe's financial institutions, active in all member states, in particular the Council of Europe Development Bank (CEB) and the European Investment Bank (EIB), have also been adapting their products and services to the energy efficiency 'market'.

EU project funding

The Intelligent Energy Europe (IEE) programme is managed by the European Agency for Competitiveness and Innovation (EACI), an executive arm of the European Commission. Between 2007 and 2013, the IEE programme budget amounted to €730 million, increasing from €88.3m in 2009 to €150m in 2013. In 2009 approximately 25 per cent of the budget has been allocated to the building sector.

The aim of these IEE projects is to unlock the potential for energy efficiency in buildings, appliances, industry, transport and cities, with over 400 projects funded to date. CECODHAS-Housing Europe has received an IEE grant to ensure that the results of the completed projects are actively shared with its 20,000 affiliated local social housing organisations in an initiative entitled POWER HOUSE EUROPE.

Although in need of development, the contribution of carbon-trading and efficiency-based market mechanisms promoted through EU law also stands to have an impact at local level. Following the revision of the ETS in the 2008 CARE package, auction revenues from 2013 onwards can be used for efficiency measures, while 'white certificate' systems can be implemented (whereby certificates which prove energy reducing refurbishment has been carried out can be auctioned or sold as a marketable good). But these policy instruments remain optional under EU law. There is significant room to increase pressure on member states to turn these options into substantial future funding streams to support the energy transition on the ground.

EU structural funds

But in the short term, structural funds have a key role to play in greening national and regional spending programmes and serve as a lever for the release of additional public and private funds. All three of the structural funds have the potential to contribute to sustainable energy actions although energy efficiency is only one of their priorities and, until recently, housing retrofit projects were not eligible for ERDF in the EU15 member states.

linking structural funds with European loans – the Estonian example

One leverage option for structural funds is to combine ERDF funding with loans from Development Banks. This system has been activated in Estonia where a central revolving fund consisting of funds from the ERDF and loans from the Council of Europe Development Bank has been combined with assistance from the national housing fund to provide a guarantee and funding source providing long term low interest loans to householders through local commercial banks. The guarantee means that no collateral is needed.

As part of the European Economic Recovery Plan agreed in April 2009, an amendment to the regulation on the ERDF was adopted stating that energy efficient refurbishments and the use of renewable energy in existing homes can now benefit from up to four per cent of each member state's ERDF allocation, while new member states are allowed to allocate up to six per cent to these projects.[4] The ERDF can consequently co-finance national, regional and local schemes related to the insulation of walls, roofing and windows, solar panels, and replacement of old boilers. Existing data reveals that currently only 0.23 per cent of the funds are being used for energy efficiency measures, with only 0.77 per cent being used in the EU12.[5]

The proposal aims to contribute to social cohesion by supporting in particular vulnerable groups at risk of energy poverty, as defined by member states. There is no additional funding, however, which means that this new measure requires a shift in the priorities set at regional level. It is now up to member states and their national and regional authorities to decide whether to make use of it or not.

There is, however, much more that can be done via structural funds. In its opinion on the EPBD, the European Parliament called for a significant increase in the maximum amount of European regional development allocation that may be used to support energy efficiency including district heating and cooling and renewable energy in housing.[6] In addition, the Parliament also proposed that by 2014 at the latest there should be established a dedicated Energy Efficiency Fund based on contributions from the Community Budget, the EIB and member states for energy efficiency and renewables in buildings.

financial institutions adapt to the efficiency agenda

The reinforcement of energy and climate change objectives and the ongoing strengthening of the EPBD have led Europe's financial institutions to adapt their products and services to changing political priorities. They have recognized the considerable lending opportunities in the required improvement of the energy performance of housing and social housing and this area has become a priority target.

In collaboration with the European Commission, the EIB has recently launched the 'ELENA' facility, with €15 million of European Commission funds for local authorities for financing their costs associated with the development of municipal investment projects or programmes contributing to the overall EU energy targets. ELENA is also funded by the Intelligent Energy Europe (IEE) programme and will contribute to technical assistance costs related to eligible investment projects, such as retrofitting of public and private buildings, sustainable building, energy-efficient district heating and cooling networks, or environmentally-friendly transport.

next steps: increasing ambition

As we consider the intertwined future of the EU's climate policy and its budget, two things are clear. The first is that current funding approaches, although substantial, will not cover the up-front costs required to meet the EU's energy efficiency potential. Targeted funding at a different scale will be required to leverage investments across the EU.

The second is that there is no longer room for a pale-green EU budget. Every Euro of European taxpayers' money must be used to contribute to a further greening of the economy and not as a life-support machine for outdated and environmentally and socially damaging sectors. The next EU budget must propose innovative and groundbreaking approaches to facilitate this eco-efficient refurbishment boom and complement and improve existing funding and financing facilities.

While in the longer term the energy efficiency transition can be financed in part via the ETS and the development of other market mechanisms such as white certificates, in the immediate term action via the EU budget is required to catalyse action in support of the 2020 targets.

Alongside a range of policy and regulatory interventions required to provide a coherent framework for energy efficiency investment, the EU needs to:

- Set a clear framework for energy efficiency investments via the revised Energy Efficiency Action Plan, Post-Lisbon Strategy, and the EU budget, detailing how funding will be delivered from member states;

- Encourage EU member states to revise their ERDF operational programmes and ensure that full use is made of the allocation of up to 4 per cent of funds for energy efficiency and renewables measures in social housing;

- Use the budget review and negotiation of the next financial perspectives to substantially increase this allocation to energy saving projects, including renovation, district heating and cooling, and renewables. As a means of mobilising private funding, renovations that do not increase energy efficiency should not receive EU funds.

By addressing the existing EU budget and preparing for the next one, the EU can put itself into position to truly deliver on its energy efficiency goals. In doing so it can activate its cities and citizens to grasp this big win within reach.

climate, cohesion, and delivering EU value

Keti Medarova-Bergstrom
CEE Bankwatch Network and Friends of the Earth Europe

The current economic crisis, soaring unemployment and the threat of climate change are all challenges for which Europe needs new answers: high carbon growth is no longer an option. Cohesion policy needs an urgent reform to lead the transition towards the low-carbon development of the EU into the longer term.

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European Union cohesion policy and its structural instruments – so called structural and cohesion funds – account for around one third of the current EU budget. At €347 billion over the period of the current 2007-2013 financial perspective,[1] they are now roughly equal in size to spending on the Common Agricultural Policy (CAP), historically the largest spending line in the EU budget.

The financial support they provide is aimed at addressing regional disparities across the EU, providing a majority of public financing in cohesion countries.[2] Importantly, EU funds have a strong leverage effect via national co-financing and additional loans from international financial institutions (IFIs) such as the European Investment Bank (EIB). They also help attract private investments by unlocking business opportunities, giving credibility to projects and fostering innovation. In other words, the way EU funds are used in these countries largely determines their economic development path.

Much as it did 20 years ago, cohesion policy still focuses mainly on economic and infrastructural investments to address regional disparities and deliver economic growth. But this traditional formula is increasingly being questioned. The current economic crisis, soaring unemployment and the threat of climate change are all challenges for which Europe needs new answers: high carbon growth is no longer an option.

Importantly, the use of EU funds has recently assumed a new role as a favoured anti-crisis stimulus measure and progressive proposals have been made to ensure that these funds not only deliver economic recovery in European regions but also facilitate the transition towards an eco-efficient and low-carbon economy.[3] It is imperative that such a shift in emphasis does indeed take place. This chapter considers how such an approach can be taken forward.

the changing climate for cohesion policy

The European Commission's fourth progress report on cohesion in 2006 identified climate change as one of the key challenges for European regions. Moreover, the 2008 report 'Regions2020'[4] stated that climate change will have acute territorial impacts. Certain regions and territories, such as mountains and coasts, will bear severe negative impacts not only for their economic development but also on their natural ecosystems and the quality of life of their citizens.

Investments will obviously be required to mitigate carbon emissions but must also address adaptation measures related to drought, heatwaves, forest fires, coastal erosion and flooding. Indeed, the 2009 independent Barca report on the future of cohesion policy goes further, highlighting that the cost of these impacts will be mostly borne by already disadvantaged regions, leading to further exacerbations of existing economic disparities.[5] While the territorial aspects of climate change are now being recognized, EU spending is still lagging far behind in addressing these challenges.

In 2008, the EU adopted the Climate Action and Renewable Energy (CARE) Package, which sets targets for emission reductions and increases in the share of renewable energy sources. Significant financial investment will be required, especially in new member states. In this respect, EU funds could play a crucial role in ensuring effective delivery of EU climate policy at national and regional levels.

state of play

When the overarching priorities for cohesion spending were finalised in 2006, it was agreed that it should deliver more than just economic development: "the objectives of the Funds shall be pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environment."[6] Similarly, the regulations for the European Regional Development Fund (ERDF)[7] and Cohesion Fund[8] include specific provisions that make possible the financing of climate mitigation measures such as energy efficiency, renewables and clean transport. The Community Strategic Guidelines on Cohesion Policy[9] further underlined the possible synergy effects of pursuing economic growth together with environmental protection.

However, cohesion policy does not have a dedicated category of expenditure on climate change, nor a comprehensive integrated approach to mainstreaming it in other cohesion policy interventions. Furthermore, climate adaptation measures are entirely missing from the regulations guiding the use of EU funds.

Analysis of the 2007-2013 EU funds allocations[10] show that measures such as energy efficiency and renewable energy receive a meagre 2.6 per cent of all funds, despite the fact that these two measures are listed among the 12 Lisbon Strategy priorities.[11] Meanwhile, nearly 12 per cent of EU funds subsidise motorway and other road investments that are more likely to intensify climate change and lock countries into carbon intensive paths of development.

Indeed, between 2000 and 2006 EU funds contributed to the growing emissions of the then biggest recipients of the cohesion policy: Spain, Portugal, Greece and Ireland.[12] The similar 'business as usual' spending taking place in new member states between 2007 and 2013 is therefore likely to perpetuate the same rising trend in carbon emissions instead of reversing it.

Furthermore, experience in new member states shows that many of the major projects supported with EU funds are often based on local political preferences or archaic plans rather than on a rigorous assessment of cost effectiveness, available alternatives and environmental impacts[13]. In the 2007-2013

financial perspective the transport projects supported by the Trans-European Transport Network (TEN-T) give priority to road (€40 billion) and aviation (€1.9 billion). It is important to note that the transport sector remains the only sector in the EU for which carbon emissions are still on the rise, having increased by 32 per cent between 1994 and 2004.[14] Meanwhile the rehabilitation and upgrade of the EU's rail infrastructure and the development of clean urban transport remain underfinanced.

It is therefore clear that the objectives of EU cohesion policy and the principles on which the structural and cohesion funds are allocated must be dramatically reformed. There is an urgent need for EU spending to stimulate the de-carbonisation of the economy and unlock private-sector investments that work in harmony with, rather than at the expense of, the natural environment.

The economic crisis has opened a window of opportunity to change the role of EU funds. Following President Barroso's rhetoric on "smart spending" for low-carbon recovery, DG Regional policy has put forward a series of progressive proposals for changes in the EU Funds regulations. These would allow member states to channel EU funding into energy efficiency and renewable energy projects in housing. But no additional EU funding has been made available for these measures. The changes in the regulations simply allow for shifts within and across existing operational programmes. This means that member states will have to take from another spending category in order to reallocate the funds.

Already, the signs are not promising. In early 2009, as part of its response to the economic crisis, the EU adopted changes to simplify spending procedures, and speed up, and front-load investments in major infrastructure projects.[15] There is evidence that new member states in particular are tempted to channel EU funds into such developments, but unfortunately still focus on high-carbon ones. The most acute example is Estonia. Here, railways and public transport investments were prioritised in the 2007 allocations, but EU funds have since been shifted to fund an increase of up to 64 per cent for road construction measures. If similar actions follow in other countries, high-carbon infrastructure developments pursued as anti-crisis measures will easily wipe out the emissions benefits from investments in clean energy and energy efficiency measures elsewhere.

improving the existing budget

When the current operational programmes were proposed by member states and adopted by the European Commission, climate mitigation and adaptation did not feature as a priority. But the economic crisis has opened new opportunities to take the low-carbon pathway. Given the current economic uncertainty, the European Commission must demonstrate its leadership role by addressing spending already within the current 2007-2013 budget ensuring that member states update their operational programmes to reallocate funding for energy efficiency and renewable energy.

Additionally, the European Commission should require that member states develop roadmaps for low carbon development, identifying opportunities for low-carbon pathways that can catalyse wider regional transformations. Member states should use funding from the technical assistance budget lines to develop these plans at regional or national levels. These should assess the specific impacts of climate change on a given territory and identify investment needs for mitigation and adaptation as well as opportunities for green businesses, technological innovation and green jobs. Ultimately, these roadmaps should serve as the basis for targeting spending over the next few years and inform the planning of EU budget support for the next budget period post-2013.

the urgency of forward reform

The next multi-year framework for the EU budget is scheduled to run from 2014 to 2020, drawing it directly into line with the established timeline for the targets of the EU CARE package. The future EU budget will also be in line with the new EU 2020 strategy proposed by President Barroso as the successor to the Lisbon Strategy for growth and jobs. Based on Barroso's proposed political guidelines for the new Commission, the new strategy will seek to enhance the creation of a 'competitive, connected and greener economy'[16]. It is imperative EU funds help unlock the EU's urgent transition towards a low-carbon economy, requiring momentum for change throughout the upcoming negotiations on the EU budget and cohesion policy.

We propose five key approaches that should inform such a strategy:

1. from redistribution and economic growth to low-carbon development

Structural and cohesion funds have traditionally had a redistributive function, providing financial resources to overcome disparities between the poor and the rich regions of the EU. Currently, EU funds are also meant to deliver growth and stimulate competitiveness in European regions by earmarking 60-75 per cent of all funding to the Lisbon Strategy objectives.

Cohesion policy needs a new overarching goal that ensures a focus on improving the wellbeing of Europe's citizens and stimulating low-carbon development within ecological limits. The allocation criteria for cohesion funding need to be expanded to include environmental and social needs and spur synergetic solutions. Furthermore, low-carbon investments will not only contribute to emissions reductions but also reap other ancillary benefits: a double dividend for social cohesion and economic development. Such benefits include reducing energy bills, creating new employment and business opportunities, and spawning innovation in low-carbon technologies. In many regions, EU funds will play a crucial role in unlocking these opportunities and attracting additional private investments for a smooth transition towards a low-carbon economy.

2. make climate mitigation and adaptation priority spending areas in future cohesion policy

The next wave of EU funds will need to earmark spending that will assist cohesion countries in reaching the targets of the CARE package, and eligibility for funding should be made conditional on tackling them. Dedicated investments in climate adaptation at regional and local levels will likewise need to be secured to ensure resilience of entire economic sectors, communities and ecosystems.

EU funds should also be made available for capacity-building measures such as training, education, awareness-raising and skill development for environmental sustainability, climate change and ecosystem services. The establishment of best practice networks in local and regional administrations should be also supported. Such measures will improve the absorption capacity for climate projects and foster innovation.

3. climate-proof other cohesion policy interventions

Climate mitigation and adaptation measures need to be mainstreamed across cohesion policy programmes and in projects at each stage of planning, design, implementation and monitoring. EU funds can require this through approaches like eco-conditionality and eco-compatibility. Measures that fuel climate change instead of tackling it should be abolished from the cohesion policy portfolio.

Similarly, new indicators should be integrated in the overall monitoring systems of EU funded programmes and projects. Best practices such the French NECATER carbon

evaluation tool[17] should be shared and applied in other countries where possible. Existing approaches such as Strategic Environmental Assessment (SEA), Environmental Impact Assessment (EIA), and cost-benefit analysis should integrate climate mitigation and adaptation needs to provide rigorous assessment of alternative solutions and ensure adequate measures are taken. An explicit role in providing 'climate proofing' technical assistance to JASPERS[18] should be granted.

4. carry out regular and rigorous sustainability evaluations

A recent European Environment Agency (EEA) study found that many evaluations of EU cohesion policy focus on the level of spending or the distribution of investments between sectors within a country, but provide no evaluation of the actual effectiveness and impacts of the measures themselves. Overall, the study argues that evaluations fail to inform decision-making and they are not properly embedded into the spending cycle.[19] Sustainability evaluations are an integral part of a 'sustainability management system', which delivers support for and legitimization of decision-making while being a vehicle for social learning.[20] Their deployment in cohesion policy needs to be strengthened to improve the link between public spending and climate change action.

5. ensure better transparency and the participation of environmental actors

Transparency and participation in decision-making, implementation and evaluation are essential elements of healthy democracy and governance for sustainable development. Due to the complex multi-level system of shared management of EU funds programmes and the volume of supported interventions, the responsibility for publicity and transparency is assumed to lie in member states. The European Commission, however, has co-decision power over major projects and therefore must accept a much stronger responsibility in ensuring the publication of a project's content, feasibility, and environmental and climate impacts before a decision is reached. In this respect, EU funded projects are lagging far behind the transparency standards of IFIs like the European Investment Bank, which have been criticised heavily for years for their secretive development project loans.

conclusions

There is a clear and urgent need for climate change mitigation and adaptation imperatives to be addressed across European regions. The EU has already committed to concrete targets for emission reductions and renewable energy within the EU CARE package. EU heads of state and government in their December 2009 Council conclusions gave a fresh mandate to the European Commission to seek a 'new approach' to the long term development of the Union and called for a shift towards a 'safe and sustainable low-carbon and low-input economy'. At the heart of this effort will be the EU's actions on budget reform. It is imperative that the EU commits significant spending to make sure that these aims are met and results are delivered.[21]

The economic crisis has created momentum for progressive proposals that EU funds can facilitate a greener recovery. There is an opportunity to go further, with EU funds helping to lead the transition towards low-carbon development in the longer term for those countries and regions which will most struggle to reduce carbon emissions or adapt to climate impacts. This would be a positive alternative to the continuation of existing cohesion spending.

Decisions taken now will determine how European taxpayers' money will be spent up to 2020. A continuation of high-carbon spending would be indefensible. The low-carbon opportunity must be grasped with both hands.

transforming technology, delivering decarbonisation

Giles Dickson
Alstom

If the EU is going to meet its climate change and energy security goals, it is essential that power generation in Europe is decarbonised: transformed to deliver only low-carbon forms of electricity.

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Over half of Europe's electricity is generated by fossil fuels, and the power sector accounts for around one-third of the EU's carbon emissions. If the EU is going to meet its climate change and energy security goals, it is essential that power generation in Europe be decarbonised: transformed to deliver only low-carbon forms of electricity.

Action to do this must proceed quickly. Not only does the power sector account for far more carbon emissions than any other industrial sector, it is also relatively easier for it to reduce them. There are a number of ways of generating low-carbon electricity, but relatively fewer low-carbon options for the production of, for example, steel, cement or chemicals. Furthermore, the demand for low-carbon forms of electricity is set to increase as a means of reducing Europe's dependence on fossil fuel imports and increasing its energy security.

But the timeline for this decarbonisation is short. In the UK, the independent Committee on Climate Change has recommended that the power sector should be almost entirely decarbonised by the year 2030.[1]

new investments needed

Decarbonising the power sector will require huge investments in new technologies, plant and infrastructure.

in new technologies

Many low-carbon energy technologies (wind, solar, biomass and carbon capture and storage (CCS)) have already been developed, with some already available to the market. But all of these require further research and development (R&D) to optimise their performance and drive down costs. Other technologies, such as geothermal, tidal and wave, are less developed and require further significant R&D investment. All of these technologies, once developed, then need to be demonstrated at pre-commercial or commercial scale, ahead of their wider deployment.

in new plant

Low-carbon technologies, once developed and demonstrated, then need to be deployed on a massive scale across Europe in industrial-size installations. This will require both the construction of new plant and the retrofitting of clean technologies. Much of this investment will have to happen anyway as a large part of Europe's existing power generation capacity is nearing the end of its working life and needs to be replaced.

in new infrastructure

But new clean plant on its own will not decarbonise power generation. Low-carbon generation capacity will need to be physically connected to the grid. And the grid itself will need to accommodate their potentially more variable electricity production alongside other more traditional forms of generation. This will require major investment in networks, and the development and deployment of new technologies to store electricity and adjust inputs to the grid from different sources.

how much required?

The total cost of these investments is hard to gauge. The European Commission's recent Communication on Financing Low-Carbon Technologies[2] estimates that Europe needs to invest an additional €50 billion by 2020 in the R&D, demonstration and early market take-up of clean energy technologies. But that alone is not sufficient: the same paper estimates the total combined investment needs for wind, solar, energy networks, bio-energy, CCS, nuclear fission and smart cities are €75 billion.

Beyond that, there will remain the challenge of rapidly deploying these technologies at the scale required to impact soon enough on emissions while ensuring security of supply. This will require huge further levels of investment, mostly in the private sector but with public action driving and incentivising those investments.

The European Commission estimated in its staff working document[3] accompanying the Communication on the Second Strategic Energy Review[4] that the total energy investments required in the EU by 2020 were expected to cost around €400-435 billion. Independent research by Cambridge Energy Research Associates (CERA) draws a similar conclusion. CERA have estimated that the average annual cost of investment in clean energy technologies in Europe between 2009 and 2020 will be €35 billion (in nominal capital expenditure (capex) terms).

who will fund these investments?

the role of the public sector

Most of these investments will be expected to draw a commercial return and the private sector will bear the burden of funding most of them. But the public sector will need to make sizeable investments itself, in each of the areas of R&D, technology demonstration, and early market take-up and commercialisation.

R&D in low-carbon technologies entails a level of technology and commercial risk that means it cannot be delivered by private investment on its own, certainly not in the timeframe required. Public support for R&D is a well-established principle long recognised by both the EU and national governments in Europe through their significant investment of public funds in the EU Framework Programmes and national R&D activities.

The demonstration of clean technologies at industrial scale will in most instances not be a commercially viable proposition for the private sector. The costs of the technology will be higher than the currently available high-carbon alternatives; although costs should fall once clean technology is being deployed on a wider scale. But even at this stage of technology development there will continue to be a technological risk that industry will be unwilling to bear on its own. Both the EU and some national governments have recognised

this through the funding they have committed to the large-scale demonstration of CCS, for example.

The third stage of early market take-up and commercialisation of the relevant technologies may also require additional public financial support. The existence of feed-in tariffs in most member states to support the deployment of renewables is testament to this. In such cases, support is required during the initial period in which costs are still falling, prior to a point where they can be covered by the return on a purely commercial investment, including income generated from the carbon price.

the role of the EU

The decisions on how this burden of public investment will be shared between EU and national authorities will in part be driven by the political interests that inevitably accompany budget discussions. We take the view that the EU will need to bear a significant part of the financing responsibility, for the following reasons.

Europe's collective R&D and demonstration efforts are more effective if they are coordinated at EU level, avoiding the duplication of national efforts. This implies both coordination of EU input in the R&D and demonstration of low-carbon technologies, plus sizeable support from the EU budget.

Additionally, the fruits of both R&D and demonstration in low-carbon technologies need to be shared as appropriate across Europe. The EU has a key role to play in disseminating the resulting knowledge so that all member states benefit from it. In this, the EU needs to take further what it has already started in efforts like the EU CCS demonstration programme. Such knowledge-pooling and sharing activity requires EU investment.

In the same vein, the early commercialisation and market take-up of some of the key technologies may require a small number of selected large-scale investments in plants that, to begin with at least, are not commercially viable. Such investments should be coordinated at EU level, to avoid duplication, and ensure the right geographical and technology spread. The EU will be better placed than member states to provide the necessary financial support for these strategic interventions.

Finally, many of the public investments in the infrastructure required to support a decarbonised power sector will by definition be cross-border. Again, the EU is better placed than member states to support investments such as interconnections linking electricity networks across Europe. The existing TEN-E projects and the funding from the European Economic Recovery Plan are a step in this direction, but concerted action at a larger scale will be required over the coming decades.

how far will the ETS support these investments?

The carbon price delivered by the EU Emissions Trading Scheme (ETS) will help to incentivise much of the private investment required in new plant and infrastructure. However, it is not yet enough on its own to drive the huge scale of investments needed over the next ten years. Current evidence bears this out. Worryingly, the amounts invested in new plant in the power sector across Europe in 2008 fell significantly short of the €35 billion annual investments assessed as necessary by CERA.

But the value of the ETS will not solely be delivered via its price signal. The significant increase in the auctioning of allowances in Phase III of the ETS from 2013 will deliver revenues that could in principle support some of the public investment that has been identified as necessary. But these revenues will

be national not European, and are therefore unlikely to support the European investments identified above.

Indeed, given the current fiscal climate it is unclear how far auction revenues will even be able to support the public investments in clean technology that are required at national level.

what support does the EU budget currently provide?

The EU budget already provides significant support for the development of clean energy technologies. In the current Financial Perspective (2007-13):

- Framework Programme 7 (FP7) is investing €2.3 billion in clean energy R&D;

- the Competitiveness and Innovation Programme (CIP) is investing €730million in "intelligent energy" projects;

- the Entrepreneurship and Innovation Programme (EIP) is investing €430million in eco-innovation; and

- significant funds are available under the structural and cohesion funds (SCF) to support specific energy projects, notably in the new member states.

In addition, the European energy plan for recovery is investing €4 billion in 2009 and 2010 in strategic energy technologies (CCS, offshore wind and interconnections[5]); while 300 million emission allowances from the New Entrant Reserve of the ETS will be allocated by 2015 to the demonstration of CCS and innovative renewables technologies.

what support should the EU budget provide?

But these levels of funding fall short of what is required to deliver the EU support to drive the huge investments in low-carbon energy required over the next ten years. The European Commission has implicitly recognised this in its September 2009 Communication on Investing in the Development of Low-Carbon technologies, stating:

"Given the need to establish a rapid implementation of focused, integrated programmes on technologies that have widespread deployment potentials across the EU, an increase in the proportion of the public investment at Community level will need to be one of the options explored in the budget review."[6]

A significant increase is required in the investments made from the EU budget in support of low-carbon energy technologies. More specifically, and drawing on the European Commission's own analysis in its recent paper, we would propose that the EU budget should:

- increase its total spend on clean energy by €1 billion each year compared to current levels;

- allocate a specific amount of funding from both the R&D Framework (FP) and Competitiveness and Innovation Programmes (CIP) to fund the European Industrial Initiatives that lie at the heart of the Strategic Energy Technologies (SET) plan;

- reinforce the European Investment Bank's (EIB) Risk-Sharing Finance Facility to allow it to support the SET Plan, this should include an EU budget contribution to the energy objectives of the EIB's 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund);

- increase EU support for venture capital markets to encourage increased investment in clean energy, particularly in small and medium enterprises (SME) through the CIP's High Growth and Innovative SME Facility (GIF);

- create a single budgetary framework for a one-off transition to low-carbon energy generation. Such a framework would include those funds being allocated to clean energy projects across the full range of Community Programmes (FP7 and 8, CIP, EIP) and the structural and cohesion funds. This budget framework would serve to ensure effective co-ordination of the investments made across EU instruments; and

- create a new budget instrument to finance large commercial-size demonstration / market replication projects in order to support the early market take-up of key technologies. Such an instrument would enable the EU to allocate funding upfront to projects and assume the technology risk. Perhaps in return a share of any substantial benefits that may result could be invested back into the fund.

conclusions

The decarbonisation of energy generation is only one part of the wider transition to a low-carbon economy that is required if the EU is to meet its ambitious long-term climate goals. Other sectors need to undergo similar transformations, and can and should be supported in this by the EU budget.

Transport stands out as a sector that already receives substantial funding from the EU budget, notably through the Structural and Cohesion Funds and TEN-T programme. Those funds should be used to encourage a modal shift to low-carbon forms of transport, including via the completion of the TEN-T network. The EIB and public-private partnerships should also be fully mobilised to support low-carbon transport projects.

It is encouraging in this context that European Commission President José Manuel Barroso has identified for rapid decarbonisation both the transport sector and power sector in his manifesto for re-election 'political guidelines for the next Commission'. It is vital that these guidelines are translated into clear political priorities for the new five-year EU institutional cycle, and that those are then fully reflected in the way the EU uses the main tool in its policy kit: the budget.

The budget review and subsequent agreement of the Financial Perspective for 2014-20 offers a huge opportunity to achieve this. It will be one of the defining issues for the new terms in office of the European Parliament and European Commission: now is the time to make this happen.

emissions trading and EU budget

Sanjeev Kumar
WWF European Policy Office

We must ensure that the new wealth generated from ETS auction revenues are used to build a cleaner, safer and prosperous Europe. Failure to maximise this opportunity is simply unacceptable.

Sanjeev Kumar joined the WWF European Policy Office in 2007 to coordinate their activities on the European Emissions Trading Scheme (ETS). He previously worked for the Energy Institute and for the Crown Estate, which manages land for HM the Queen.

Climate change, unlike any other threat in human history, compels us to implement the most comprehensive, profound and disruptive change ever witnessed in a very limited timescale. The clean, safe, sustainable and low-carbon Europe that we have to build will be founded upon four interdependent pillars: decisive political leadership, transparent policy planning, democratic inclusivity, and last but not least, adequate financing.

It is within this context that we must consider how Europe will invest in its low-carbon transition. The review of the EU budget provides an opportunity to think through how spending decisions at EU level will intersect with other policy levers.

Central to this discussion will be consideration of the future of the EU emissions trading scheme (ETS), the EU's flagship policy approach to tackling climate change. This chapter looks at the political dynamics influencing the recent revisions to the ETS and the review of the EU budget, and considers how these two different approaches can add value to each other in ensuring public acceptance and political confidence in the EU's low-carbon transition.

development of the ETS

The ETS can be viewed as the EU's most transformative political achievement of recent times. In comparison to the Euro currency, which after 10 years includes only 16 of the 27 EU member states, the ETS provides a single shared economic instrument, designed to enable Europe's transition to a low-carbon economy. The ETS has real compliance and enforcement criteria applicable directly to participating emitters, collectively responsible for almost half the EU's carbon emissions.

The underlying logic of emissions trading is that it should enable the economically efficient pursuit of reductions in carbon emissions at lowest cost. Over time, the ETS will incentivise

investments in low-carbon technologies and penalise high-carbon options, bringing into reach further reductions in carbon emissions via an increasing carbon price.

To date, however, the impact of the ETS has been far less than had been hoped. A combination of grossly inflated emissions caps coupled with the global economic recession have led to insufficient pressure for genuine EU emissions reductions and resulted in volatile carbon prices.

As a consequence, the ETS has not yet been able to undertake the real heavy lifting required to radically reshape investment patterns. This must be addressed through an immediate revision of the ETS cap to correct for the instability caused by the economic recession and bring emissions reductions into line with the levels required by the latest climate science.

But alongside this tightening of the emissions cap, it will be important for the EU to use the ETS more creatively to build public and investor confidence in the low-carbon transition and ensure that least-cost options are taken up. What needs to be pursued is a strategy of 'cap and invest'[1] rather than simply 'cap and trade'.[2] Targeted investments of auction revenues, combined with smart regulatory frameworks, can enable significant further reductions in carbon emissions over and above those that would be achieved via the carbon price alone.[3] This visible investment would support Europe's economic competitiveness, reduce the social impacts of the low-carbon transition, and provide a sustainable political platform for deeper emissions reductions over the coming decades.

recent revisions to the ETS

The revisions undertaken in the Climate Action and Renewable Energy (CARE) package in 2008 sought to address many of the initial design flaws in the ETS, and were important steps forward in building its credibility. The introduction of significantly increased auctioning of emissions allowances is an important step forward in tackling public concern about windfall profits,[4] and provides the basis for a more far-reaching discussion as to how these new revenues will be used. For allowance auctions are already creating a new and significant source of income for member states, one that will increase further in Phase III of the ETS from 2013.

Yet at present ETS auction revenues are not dedicated to climate and energy goals, nor channelled towards shared EU climate outcomes via EU mechanisms. This is a massive missed opportunity and a recipe for a future crisis of legitimacy. For the political and economic tensions that will continue to surround the EU's transition to a low-carbon economy need to be tackled positively. The EU has tried to address this to date through the design of the ETS system itself, but this will not be sufficient.

intra-EU redistribution is already an issue

The negotiation of the CARE package saw agreement that 88 per cent of the emissions allowances for the period 2013-2020 will be distributed to member states on the basis of their relative shares of past emissions. A further ten per cent of the total number of emission allowances will be reallocated between member states as a means of supporting intra-EU solidarity and growth.[5] Additionally, nine member states[6] from central and eastern Europe will share an additional two per cent of emissions allowances, in recognition of the historical reductions in carbon emissions that came about at the end of the communist era.

Jointly, these two approaches demonstrate how the EU has sought to sweeten the pill for reluctant member states by providing a transfer of resources via the ETS. Importantly, the additional income delivered via both

approaches stems from EU legislation. It is an EU-generated resource, aimed at securing the shared public good of a stable climate.

We at WWF believe that it is vital that this money is actually spent on delivering the CARE package so that the benefits of a healthier low-carbon economy are achieved to the advantage of all European citizens. If member states fail to deliver this spending it is likely that the European Parliament will seek to more closely direct this expenditure when the ETS is next reviewed after a new international agreement on climate change is reached. The EU budget offers one option for directing auction revenues to unlock Europe's low-carbon economy.

delivering spending?

In the 2008 negotiations, the European Parliament was the only EU institution to act on the political significance of the ETS in providing predictable financial assistance for the low-carbon transition for both the EU and also for developing countries.

The European Commission had originally proposed that 20 per cent of revenues should be used for climate change objectives,[7] while the European Parliament[8] agreed with campaigners such as WWF[9] in calling for 100 per cent dedication of auction revenues; with half each to be spent on the EU's international obligations and its domestic decarbonisation.

Thanks to the support of the European Parliament, it was finally agreed that 50 per cent of the income from the ETS or its equivalent be spent on a broad list of measures including the EU's international commitments; renewable energy technologies; reducing tropical deforestation; energy efficiency; and research and development.[10] Interestingly, the press release from the Council upon the final agreement of the CARE package noted that this spending should also be used "to alleviate the social consequences of moving towards a low-carbon economy".[11] Member states thereby recognised the important role that the visible expenditure of auction revenues has to play in building public confidence, yet ironically this potentially more positive political strategy was squeezed out during the negotiations.

For the final agreement reached represented a broader defeat for the European Parliament, which bowed to member states' insistence on greater flexibility to spend the income from the ETS as they wish. This political fight rested on the battle between the ultimately agreed word "should" and the proposed word "shall" in Article 10 of the ETS directive. Furthermore, it is worth highlighting that the final position agreed was that 50 per cent of auction revenues "or the equivalent in financial value" should be used. [12]

Member states will no doubt be able to report ways in which they have leveraged spending via regulatory policies or fiscal changes. But what won't happen as a result is a direct discussion of how ETS auction revenues will be channeled to unlock the low-carbon transition in member states and at EU level. The opportunity for a visible public demonstration of the EU's added value in the climate battle will have been missed.

Indeed, the lack of visible benefits from these new resource flows present a political legitimacy problem, even for richer member states, particularly when they are under pressure from vocal industry lobbies. Citizens want to see that higher energy prices are resulting in tangible improvements in areas such as energy efficiency or transport that have direct impacts on their quality of life.

tackling the hypothecation debate

At the heart of member state opposition to a stronger position on the use of auction revenues is the issue of hypothecation (the earmarking of expenditure related to specific

revenues), and it has to be recognised that there are important legal issues involved here.[13]

Yet vocal member state opposition to the earmarking of auction revenues has led Benito Muller of the Oxford Institute for Energy Studies to argue that finance ministry positions based on the grounds of "fiscal purity" should in fact be read as "fiscal possessiveness".[14] Such possessiveness is of course to be expected in times of economic difficulty, but the bigger picture of an effective response to climate change is at risk of being lost.

As Muller points out, earmarking can actually lead to both increased revenues and increased expenditure on public goods as a result of the improved visibility and legitimacy given to the policy aim.[15] As a consequence, a greater stability of spending can result. Earmarking does therefore take place for topics as diverse as social security payments, national lottery receipts, or environmental taxes and energy charges.

Indeed, Germany has already announced that it will dedicate 50 per cent of its ETS auction revenue to climate action, with around €120 million to be channelled via its international climate initiative.[16] Similarly, some member states from central and eastern Europe have committed to spend revenues from the sale of their Kyoto Protocol permits (Assigned Amount Units (AAUs)) via Green Investment Schemes.[17]

the ETS and the EU budget

The likely flow of revenues from ETS auctioning has attracted interest from proponents of EU budget reform. Indeed, ETS auction revenues have significant positive features for budget discussions as they provide a resource linked to the achievement of policy outcomes and the broader stimulation of the EU's low-carbon competitiveness.[18] Similarly, the intra-EU resource transfers within the ETS provides parallels with the current system of contributions to and receipts from the EU budget.

A logical connection is therefore easily made between the two aspects of the discussion of EU budget reform: increased spending is required on climate change and energy, while at the same time new resources are becoming available from EU action on the same climate and energy agenda.

implications for auction revenues

n their major study for the European Commission's budget review, Iain Begg et al identified ETS auction revenues as an option for part-funding the EU budget.[19] They noted the added value that flows from emissions trading at EU level and the potential logic of a centrally administered system, but also warned of the explicit member state opposition to hypothecation and the potential conflict over EU competencies that might result.

More particularly, they refer to a number of studies that suggest that ETS auction revenues could fund between 27 and 62 per cent of the EU budget during 2012-2020 (based on 2008 spending levels, and reflecting different estimates for the carbon price).[20]

WWF has consistently argued that all such revenues should be devoted to climate change measures both internationally and domestically.[21] Given that ETS auction revenues are a resource created by the EU, we would further argue that a proportion of them should be applied to addressing climate and energy policies that deliver significant pan-EU added value, for example in the areas of energy interconnections or research and development. Such support could be delivered either via the EU budget or via new and innovative financial vehicles that leverage private sector investment.

Unfortunately, the opportunity to secure this principle in the CARE package negotiations of 2008 was lost. Future revisions of the ETS following any agreement on a new UN framework will therefore take on additional significance, particularly for the European Parliament. For ratification of the Lisbon Treaty has changed the power balance with the European Council and European Commission. With this comes an opportunity for the European Parliament to again resonate directly with European citizens by building a strong political coalition for change.

One option that might gain widespread support could be for a dedicated ETS auction revenue resource stream to be incorporated into the EU budget. This could be time-limited if needed (as auction revenues themselves will be as we head towards a low-carbon economy). This funding could be dedicated to supporting both the EU's own domestic low-carbon transition (including assisting any potential losers from the transition as per the current globalisation adjustment fund) and as a means of channelling funding for the EU's international commitments.

conclusions

The inclusion of a significant flow of ETS auction revenues into the EU budget dedicated for spending on the low-carbon transition would be a bold political move, providing both much-needed policy transparency and the resources required to deliver on shared EU ambitions. Furthermore, it would form a visible signal to the EU's citizens that the social impacts of the low-carbon transition will be addressed and the EU budget reformed for the 21st Century.

Furthermore, the dedicated use of ETS auction revenues would provide the political visibility required for their ongoing legitimacy, particularly as carbon prices rise. The all-too-common assumption that high carbon prices are politically sustainable without a demonstrable investment of the proceeds is dangerous for both the pursuit of a stable climate and the EU itself.

The way forward will undoubtedly rest with member states. If they are hesitant at making visible their own use of ETS auction revenues for climate goals, and under-invest in shared EU actions, then they will surely come under increasing pressure for ETS receipts to be incorporated into the EU budget at source. For too long the EU budget has been criticised for its continued spending on the wrong priorities. It would be a serious error if member states did the same thing with ETS auction revenues.

connecting with carbon taxation

Eulalia Rubio
Notre Europe

The establishment of a common EU regime for carbon taxation would not only help the EU reduce carbon emissions but it would also provide the basis for the creation of a new EU own resource as a means of financing the EU budget.

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An idea that pervades much of the discussion of EU budget reform is that the problems essentially fall on the expenditure side. The EU budget, it is argued, is a 'relic of the past'. It is heavily tilted towards agriculture and cohesion and does not provide adequate finance to address today's most acute EU challenges: global competitiveness, energy security or climate change. Budget reform is urgently needed, it is claimed, to "focus EU spending on the right areas".

The European Commission itself has adopted this way of thinking all too quickly. One simply has to look at the way it organised the 2007-2008 budget review. While the mandate from the European Council was for a "comprehensive assessment of both expenditures and revenues",[1] in Commissioner speeches and formal documents the review has been frequently portrayed as an historic opportunity "to discuss future EU priorities and spending needs".[2]

No one can neglect the importance of revising the EU's spending priorities. Yet a narrow focus on expenditures alone is a recipe for failure. History reminds us that previous attempts to undertake an ambitious reform of EU finances have only succeeded when tackling simultaneously all the elements of the budgetary system: expenditures, revenues and procedures.[3] We can endlessly debate EU spending priorities, but this will serve to no avail if we do not address simultaneously the structural factors explaining the path-dependency of EU budgetary negotiations.

One of these factors is the structure of the revenues. The EU is currently financed by three revenue sources: i) custom and agricultural levies (the so-called TOR, or 'Traditional Own Resources'); ii) a levy on national Value Added Tax (VAT) receipts and iii) member states' contributions paid according to levels of Gross National Income (GNI). While initially conceived to play a residual role, over the last decade this GNI resource has come to

represent three-quarters of total revenues, as detailed in Table 1.

table 1 - structure of EU finances (in percentage share of revenues)

	1992	1996	2000	2005
TOR	23.6	19.1	174	13.9
VAT	61.8	51.4	40	15.9
GNP/GNI	14.5	29.6	42.7	70.3

Source: European Commission

three clear weaknesses

This system of financing has proved to be a stable basis for multi-year planning, and ensures that the EU does have sufficient resources to balance its budget. But there are three clear negative implications for the EU budget that flow from this revenue structure.

Firstly, the overwhelming dependency of the EU budget on national contributions has an influence on the way EU spending decisions are taken. The overt character of national contributions, which have a clear link to national treasuries, accentuates member states' tendency to calculate their net budgetary return (that is, the difference between what they pay and what they receive from the EU).[4] The result is a decision-making process conducive to the status quo, as member states tend to adopt a conservative stance and focus on defending a 'juste retour' from their budgetary positions.

Secondly, the strong EU dependency on national contributions has resulted in a growing reluctance to increase the size of the EU budget, despite increasing demands placed on it. The logic of net returns places particular pressure on those policy areas providing diffuse benefits for the whole of the EU. It is not entirely coincidental that calls from member states for a capping of the budget started in the early 2000s, just at the time when national contributions had come to represent almost 50 per cent of total EU revenue.[5]

Thirdly, the current approach to financing the EU is one that neither contributes to nor supports the delivery of EU policy outcomes. In this respect, one should take into account that taxes or levies are not only means of yielding revenues, but are also direct policy instruments in their own right. They can serve to alter patterns of consumption (ie reducing consumption of tobacco or levels of CO_2 emissions) or induce other actors to adopt the right decisions (ie raising R&D investment).

All EU member states use tax policy as a matter of course in the pursuit of their policy outcomes, and a strong case can be made for the EU to do so too. Given that the EU has both a low budget and practically no direct implementation capacity, tax instruments could play an influential role in supporting the achievement of shared EU policy objectives. Besides, there is a strong economic logic in undertaking or aligning taxation at the supra-national level to address cross-border spillover effects.[6] Such an approach could help avoid a race to the bottom of member state tax competition as well as providing a visible means of reconnecting the EU to its citizens.

taxation is needed to combat climate change

During recent years, the EU has shown strong commitment to the fight against climate change. The EU's effort to curb greenhouse gas (GHG) emissions has principally consisted in the establishment of a carbon emissions trading scheme (ETS). The ETS is the largest such scheme in the world, covering more than 10,000 energy generation and industrial sites across the 27 member states, and the EU should be praised for establishing it. Yet, it still presents some weaknesses, particularly in

respect to emissions caps and the auctioning of allowances, which have not been fully resolved by recent reforms.

More worryingly, the ETS is only a partial answer to the problem. The system covers less than half of the greenhouse emissions in Europe. In particular, it does not include direct emissions from households; the service sector; transport (the second largest source of emissions in Europe); nor emissions from waste and agriculture. All together, the non-traded sectors represent about 60 per cent of total GHG emissions in Europe.

The non-inclusion of transport in the ETS is particularly worrying. Transport sector greenhouse gas emissions – of which more than 90 per cent are due to road transport – increased by 26 per cent from 1990 to 2007. This compares with a reduction of emissions in all other main sectors. In fact, among the main polluting sectors, transport is the only one that has increased in volume of emissions over the past twenty years.

So far, the EU strategy to address transport emissions has consisted of the promotion of biofuels and increased fuel-efficiency for vehicles. However, as pointed out by the European Environment Agency, an exclusive focus on transport supply-side measures will not suffice to reverse the trend.[7] The increase in transport GHG emissions has occurred even though vehicles have generally improved their energy efficiency. Thus, whereas average emissions from new cars have decreased by 12.4 per cent from 1996 to 2006, over the same period car ownership has increased by 26 per cent and passenger car use – calculated in terms of km per passenger – has increased by 18 per cent. Similarly for freight transport, road- and air-freight volumes have grown considerably (45 per cent and 43 per cent respectively), reflecting a shift away from more environmentally efficient rail and maritime transport.

To reduce transport emissions, existing policies will need to be complemented with pricing measures able to influence consumer behaviour and therefore demand. The same is true for other non-ETS sectors. In the field of housing, for instance, the EU regulation on energy labelling has shifted consumer buying behaviour towards the purchase of more energy and water-efficient home appliances. Yet, energy consumption has grown by an average of one per cent a year between 1990 and 2005.[8]

It is therefore time to recognise that taxation is essential to curb carbon emissions in non-ETS sectors. But in order to move in this direction, a coordinated EU approach will be needed. The recent French debate on national carbon taxation shows it is difficult to convince national public opinions to accept higher taxes if the rest of the EU does not follow the same direction. This is not least because the maintenance of different levels of taxation on energy sources creates distortions in the EU internal market, a problem that is particularly acute in the field of transport.

Most importantly, an EU approach will be required because there is little interest or political will to introduce carbon taxation at national level. Over the past decade, only a few member states have introduced national carbon taxes (Denmark, Sweden and the UK), while the levels of energy taxation in the EU25 have decreased, passing from 2.1 per cent in 1993 to 1.8 per cent in 2007. Hence, if carbon tax policy is left to national governments to decide on their own, the most likely scenario will be a continuous downgrading of energy or carbon taxation in national fiscal regimes, undercutting attempts to reduce carbon emissions.

designing an EU regime of carbon taxation: different options

There are a number of alternatives to establishing an EU regime of carbon taxation.

In a recent study for Notre Europe,[9] Eloi Laurent and Jacques Le Cacheux sketch out three possible scenarios.

The first is the climatic conversion of existing energy taxes through a reform of the EU Directive on Energy Taxation.[10] Adopted in 1997 and modified in 2003, this Directive sets the minimum rates for the taxation of all sources of energy (mineral oils, coal, gas and electricity). However, at present these minimum levels do not reflect the environmental impacts of different fuels and, in most cases, they are too low to have an impact on consumer demand.

A way to resolve this problem would be to divide the current minimum level of taxation into two components that refer respectively to the energy content and environmental impact of each energy source. In this way, member states would then introduce a tax on all fuel sources according to their energy content, but also by reference to the carbon emissions attributable to them.

This option, which is built on a proposal by the European Commission in 2007,[11] would be relatively easy to implement. Yet, as noted by Laurent and Le Cacheux, it would still consist in the establishment of minimum rates alone, and would therefore not resolve the problem of distortions within the single market due to different national tax rates.

A second possible scenario is the creation of a new EU harmonised energy or carbon tax on the use of fuels in the main non-ETS sectors (transport and housing). This approach could take inspiration from a proposal for an EU carbon tax presented by the European Commission in 1992[12] in the context of the preparations for the Rio Earth Summit. This consisted in the establishment of a harmonised tax of hybrid type, taxing fossil fuels according to both their energy content and the carbon emissions emitted in their use. The proposed tax was intended to cover all sectors but it envisaged the possibility of exempting the most energy-intensive sectors (such as the steel and cement industries), which are now covered by the ETS. It was intended to be introduced in stages, starting at a level equivalent to $3 per barrel of oil in 1993 until reaching a level of $10 per barrel in the year 2000.

There is no doubt that such a proposal would encounter strong political resistance. The reluctance of certain EU member states to any type of fiscal harmonisation is well known. Besides, fiscal matters are subjected to unanimity vote by the EU treaty, meaning that the opposition of any single member state would suffice to block an initiative of this type for the introduction of a new EU tax. On the positive side, this proposal would be superior to the first in that it would establish a common carbon price in Europe for non-ETS sectors.

Finally, the third scenario would be the creation of an EU carbon added tax. Based on the same principles as the existing VAT, this tax would be levied on all goods according to their carbon footprint. Such a tax would provide financial incentives to both producers and consumers, as those goods with lower carbon footprints would be financially advantaged. Besides, unlike other options, it would also tax imports, hence eliminating the problems of carbon leakage and loss of competitiveness. On the other side, it would be very difficult to put into action, not only due to political resistance but also because of technical obstacles in assessment and implementation. In particular, the creation of such a tax would require all EU firms to be able to calculate their carbon footprint, something that is difficult to envisage in the short term.

the double dividend of an EU carbon tax

The establishment of a common EU regime for carbon taxation would have an additional advantage: it would not only help the EU

reduce carbon emissions but it would also provide the basis for the creation of a new EU own resource as a means of financing the EU budget.

There are various reasons why an energy or carbon tax can be a good EU tax candidate as a source of EU revenue. At present, national energy taxes raise an amount equivalent to about twice the level of EU expenditure, which converts them into a potentially buoyant source of revenue for the EU.[13] Although the levels of energy taxation are rather diverse across Europe – and therefore any attempt to introduce an EU energy or carbon tax would require a previous effort of harmonisation – the differences in tax rates have diminished over the last decade. Last but not least, an EU carbon tax would offer an important advantage with respect to other options: it would be popular, and clearly linked to EU policy priorities.[14]

The easiest means of implementation would be the establishment of an EU surcharge on existing energy taxes, or on a specific national tax (ie the excise duty on motor fuels). This could be combined with a reform of the EU energy tax directive as proposed above, so that the EU surcharge could consist in the revenues yielded by the environmental component of the tax. Another, more ambitious option would be the establishment of an EU harmonised tax (scenarios 2 and 3 above) and the use of the revenues yielded by this tax (or part of them) to finance the EU budget.[15]

Finally, it should be taken into account that the introduction of an EU carbon tax would lead to a heavily unbalanced distribution of financial burdens among member states. In particular, the poorest countries would be the major losers of its introduction, as the ratio of fuel consumption relative to GNI decreases with increasing national wealth. Yet this should not be a categorical impediment to the creation of the tax. As noted in the 2008 budget review study for the European Commission by Begg et al,[16] one might imagine different alternatives to offset the distributional consequences of the carbon tax, such as the creation of another EU tax or the establishment of an automatic equalisation scheme. Besides, if the revenues provided by this tax are earmarked for action on climate change – ie support for low-carbon energy systems and climate adaptation measures – poorer member states countries would be particularly advantaged.

conclusions

The introduction of an EU carbon tax would have direct benefits for both the achievement of EU policy outcomes and the political standing of the budget as a whole.

On policy delivery, a carbon tax could help drive emissions reductions from the sectors not covered by the ETS, particularly in the transport sector. By being introduced at EU level it would avoid many of the economic pitfalls that make national introduction of carbon taxation so difficult.

For the EU budget itself, the introduction of a carbon tax as a new own resource could help break the dominance of the GNI resource, creating a new political dynamic in favour of the delivery of European public goods and away from the current logic of net balances.

On both topics, ambitious action is required to breakthrough on delivering EU added value. Without attention to the revenues side of the EU budget, any efforts at reform in the coming years are liable to fail.

how to approach the reform?

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The way the EU budget is recalibrated will be an important lever in the process of making the EU a world leader in the financing of innovation, green technologies and new low carbon markets.

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The EU has been a global leader in pushing for ambitious targets in climate policy. It plays an important role in the ongoing negotiation of a global agreement on the reduction of emissions of greenhouse gases (GHGs), and it has made low-carbon investment a central part of its economic recovery package.[1]

One clear EU achievement in this effort has been agreement on a common political platform despite differences in the economic potential among its member states. But to ensure delivery into the future, European climate policy must do more to take into account the different levels of development in the EU and its variable impact on economic competitiveness.

For while the EU continues to make the case for global action, its less developed member states cannot endlessly assume new responsibilities without securing the supportive conditions that will enable them to continue their economic development. The concerns of Poland and other member states about their potential financial commitments under a new global agreement are a symptom of wider fears around the potential costs of the transition to a low-carbon economy.

While a handful of EU member states have launched ambitious industrial strategies to assist in the emergence of the low-carbon economy, it is clear that much more action needs to be taken in this field at the EU level, including by means of the EU budget. The potential form of the budget for the period 2014-2020 is slowly becoming an issue of political discussion. The way the EU budget is recalibrated will be an important lever in the process of making the EU a world leader in the financing of innovation, green technologies and new low carbon markets.

from recovery to prosperity

The headline analysis of the Stern Review on the Economics of Climate Change[2] was that

action now to avoid dangerous climate change is far less expensive than dealing with its consequences. This is an important message, but one that has yet to truly be taken on board across the EU; particularly in areas where the immediate costs of transition are most likely to be experienced by powerful economic interests.

A clear EU climate strategy is therefore required, one that can engage with the economic concerns of its citizens. It is fortunate that investment in low-carbon technologies are likely to have a positive impact on the economy and job creation if they are based on sound business principles. The EU has the potential to maintain its role of an exporter of green technologies to developing nations, provided it picks the right technologies and gets their financing in place.

Yet the EU budget has so far played a relatively minor role in meeting climate and energy policy objectives. Indeed, the way it is structured and operated very often contributes to increases in carbon emissions. Nine per cent of EU GHGs come from agriculture, but there has been little effort made to date to address that problem, despite the sector continuing to receive the largest portion of EU funding.

It is true that spending on research and development in the area of green technology has increased within the Seventh Framework Programme, but it is still less than funding on nuclear research as part of the Euratom Multi-Annual Framework Programme for Nuclear Research and Training. It cannot be right that historical priorities continue to receive significant budget resources at the expense of the pressing challenges that will define the security and prosperity of today's half a billion Europeans.

political realities, political priorities

The European transition to the low-carbon economy is complicated by the political and economic realities of a union of 27 member states. Given the public good nature of a stable climate and the cross-boundary implications for the European continent, it is right that shared actions are required. But although all EU member states face some common challenges in adapting to climate change and reducing carbon emissions, each nation, region and locality also has a particular set of challenges and capabilities of its own. For this reason, it will be increasingly important going forward to examine and address the impact the low-carbon economy will have in different member states of the EU.

Not withstanding these existing differences between member states, the EU has created the basis for a common energy and climate policy. This means that the EU budget should be an important instrument in ensuring that the EU remains ahead of its competitors and that the transition to the low-carbon economy takes place across the EU, regardless of the level of development of the individual member states. These two objectives should guide future thinking about the way the EU budget should be revised in the context of the construction of the low-carbon economy.

Naturally, there have to be clear guidelines for deciding what to spend at the EU level. The principle of European added value should therefore be of primary importance, meaning that EU spending should be focused on projects which require the scale of EU-level engagement. In addition, effective financial management should lead to expenditures being concentrated in areas which offer greatest returns on the investment, as measured in terms of the potential reductions of carbon emissions. The energy-intensive economies of central and eastern Europe (CEE) in particular are prime candidates for a more rapid transition to a low-carbon economy. But, having experienced the pain of

transition in the 1990s, they will require political and economic support to make this possible.

three approaches to reform

Given this context, there are three possible approaches to consider in respect to the reform of the EU budget. These are complementary rather than mutually exclusive, and in combination could provide a coherent strategy leading to a significant shift in resources toward the low-carbon transition.

low-carbon criterion

In the first approach, which would be most in line with the tradition of adapting existing instruments to the political priorities of the day, the low-carbon criterion would be applied to the main categories of spending, including the Common Agricultural Policy, cohesion policy and competitiveness for growth and employment. The manner of application will have to be tailor-made and adjusted to the specific parameters of the given policy.

This could mean that rural development policy would be focused on an additional theme on top of the existing three thematic axes of improving the competitiveness of the agricultural and forestry sector; improving the environment and the countryside; and improving the quality of life in rural areas and encouraging diversification of the rural economy.[3] The additional theme would be specifically devoted to promoting the low-carbon economy.

Similarly, in the competitiveness for growth and employment heading of the budget, more resources should be devoted to research and development on green technologies within the scope of the next Framework Programme. The recent announcements[4] of overall levels of financing required to support the Strategic Energy Technologies (SET) plan[5] are a step in this direction. But the absence of specific indications of levels of support from the EU budget is a classic example of where the EU needs to move its political ambitions into the area of real world delivery.

reorientation of cohesion policy

In the second approach, cohesion policy itself should be reoriented to help the less developed member states tackle the challenges of the low-carbon economy. This priority should be integrated into the existing convergence objective addressed to the regions whose per capita GDP is less than 75 per cent of the EU average.

The general regulation establishing common rules in programming, managing, controlling and evaluating the new cohesion policy should be complemented by a new low-carbon emphasis. This would mean that spending should be screened for their value-added in terms of enhancing the low-carbon economy. Funding should be concentrated on supporting member states in meeting the objectives of EU policy, including in the field of energy efficiency. In addition, EU funds should be focused on creating low-carbon infrastructure, especially in the field of energy and transport.

Such an approach would be in line with the results of the stakeholder consultation on the budget review. The top priorities identified for action were climate, energy, and competitiveness, with a clear desire to see cohesion funds focused on regions most in need of support.[6]

a new strategic fund

The third approach would be a new addition to the existing budget structure, via the establishment of a new instrument, the Strategic Fund for Low Emission Technologies (SFLET). In spite of the fact that some EU member states have created their own funds aimed at developing low carbon technologies, there is a strong need for a European fund that would address the financing gap which occurs before new technologies reach the

marketplace,. Such an approach could be put into operation via a hybrid fund of the EU budget and the European Investment Bank (EIB). The SFLET would address investment needs in areas where financial pooling is necessary in order to secure sufficient funding and where the EU is engaged in competition with other international actors for first-mover advantage.

The SFLET would be spent on technology-based businesses with high growth potential that require equity finance. Additionally, it would focus on investing in growing businesses, start-ups and spin-offs in the sectors of the future, such as advanced green manufacturing, renewable construction materials and chemicals, and low-carbon vehicles.

Special attention also has to be attached to clean coal technologies, which have not been adequately supported in the framework of the EU Climate Action and Renewable Energy (CARE) package. The CO_2 storage directive[7] passed as part of the CARE package sets the legal framework for Carbon Capture and Storage (CCS), but it does not address issues of funding. Support was instead granted in the form of 300 million allowances from the Emissions Trading Scheme for CCS and renewables as an ad hoc measure, reaching out in an innovative fashion to the carbon markets as the source of funding. Further funds have also been designated as part of the EU recovery package for CCS demonstration plants, but at just €180 million per project they will cover only part of the total costs.

There is therefore a need for a more strategic vision of the role that CCS technology should play in addressing the decarbonisation of the EU power sector.[8] If CCS is to be made a requirement, then the rapid proving of its commercial and technical viability is a necessary focus for EU support.

engaging CEE member states

Industry actors throughout CEE are increasingly engaged in the creation and development of new low-carbon technologies but they all to often face the same huge challenge of bridging the pre-commercial funding gap. There is therefore a growing need for innovation-friendly regulatory frameworks and increased public funding across CEE. Unfortunately, many national budgets in the region are less future-oriented than in the EU15, meaning that currently available financial support is in many cases primarily obtained from European mechanisms. The creation of a SFLET could therefore leverage further public funding and greatly stimulate the green technologies sector in CEE. This would foster the development of solutions crucial for both the decarbonisation and energy security of this region: particularly wind, clean coal technologies, and biomass.

Furthermore, in any political strategy to reform the budget, the concerns of CEE member states must also be treated seriously. The difficult discussions during 2009 as to the EU's internal division of contributions to international climate finance shows that the issue of the costs of climate change is here to stay.

In the international context, a formula for economic contributions based on responsibility for emissions rather than economic wealth makes sense for the EU as a whole. But the same approach would be bad news for the new member states that have a higher share of emissions than income (Poland, for example, has an eight per cent share of emissions and a three per cent share of EU income).

The difficulty with asking the CEE member states to contribute to international climate finance is four-fold:

1. they have just started paying large amounts of money in Overseas Development Aid;

2. they need to foot the bill for meeting climate objectives in their own economies;

3. they are mostly (with the exception of Poland) going through a particularly vicious economic crisis with enormous slashes of public expenditure in the Baltic states; and

4. they are not that well-off and some of them (Bulgaria, Romania) could end up paying richer countries, such as Brazil. This would be verging on the absurd.

Yet with the final decisions on contributions to be decided after any global agreement, an opportunity exists to address this issue further upstream.

A reform of the EU budget in support of Europe's domestic low-carbon transition, as outlined above, would channel significant financial flows to CEE member states. This would provide greater confidence that their economic recovery and ongoing competitiveness will be aided by action on climate change rather than hindered by it. Such a move would create the opportunity for a more positive dynamic about how Europe can meet its international responsibilities and unlock the political confidence required for Europe's own domestic climate action.

conclusions

The EU has a pivotal role to play in the global effort to reduce carbon emissions by pursuing a balanced, sustainable growth model and becoming a leader in eco-technologies. Given the scale of financing required, the EU budget can seem tiny, at just one per cent of EU GDP. But its ability to leverage additional resources from member states and the private sector make it a key piece of the financing puzzle.

It is worrying that EU budget negotiations traditionally lead to intensive infighting between member states over their individual attachments to the different categories of spending and their respective net financial positions. Any significant increase in spending via the EU budget to enable the low-carbon transition will undoubtedly be burdened by the same political preoccupations. It is therefore important to integrate the low-carbon objective as thoroughly as possible into the EU budget, as a means of ensuring that the low-carbon imperative does not become a hostage to the political machinations of budget negotiations.

While the proposals made here have been focused on the next multi-year framework, there are opportunities to start the implementation of these approaches within the current financial perspective, refocusing spending via the negotiations of annual budgets. Similarly, the creation of a low-carbon technologies fund could also be made possible via the use of unused budget outlays combined with contributions from member states.

During 2011, Hungary and Poland will hold the presidency of the EU Council. A central issue on their agendas will be the negotiation of the post-2013 EU financial perspective and its relationship to the new EU 2020 strategy. The timing appears right for these two member states to take the lead in securing an EU strategy for the transition to a low-carbon economy.

winning the budget battles

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The shift to an EU budget that supports Europe's transition to a low-carbon economy is possible. Much can be addressed via implementation issues and a more focused approach to the €130 billion annual EU budget, building the case for serious reform year on year ahead of the negotiation of the next multiannual framework.

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It is important for the budget reform debate to be focused on objectives. However, change is difficult and presents a serious political challenge in an ever more complex EU. Indeed, there is often an impression given that budgetary transformation in the EU is simply too difficult, while in fact structural change of any budget is tough. Back in 1964 Aaron Wildavsky wrote a famous analysis on budget politics in the US Congress,[1] coining the notion of 'incrementalism' to describe how slowly and evolutionary budgets change.

As much as a radical overhaul of the EU budget is desirable, past experience teaches us that we may be better off to prepare for a series of more ambitious incremental changes. A healthy realism about the dynamics of incrementalism means that our strategies need to take this into account. Persistence in pursuit of a low-carbon budget will undoubtedly be required.

This chapter therefore focuses on the politics of budgetary reform in the EU; on the means and methods to achieve many of the changes proposed throughout this publication. It draws recommendations from the experience during President Barroso's first term of office and the negotiations over the current financial perspectives from 2007-2013. This same period also saw new approaches taken in both the agreement of the EU's annual budgets and the three recent revisions of the financial perspectives to finance the Galileo project, the food facility for developing countries and the European Economic Recovery Plan.

improving the next financial perspectives

The most obvious step to bring the EU budget into line with the low-carbon transition and a more sustainable model of development would be the overhaul of the next financial perspectives, currently slated for the period 2014-2020. However, this exercise could also be the most difficult one as long as the

unanimity principle continues to apply for their adoption.

There are, however, three clear approaches that any strategy for change will need to deploy:

Firstly, when approaching the negotiation of the next multiannual framework, advocates for change must keep in mind that the prioritisation and distribution of monies between the different spending areas have developed over many years and cannot be cut off instantly. Therefore, it is very important to exercise continuing pressure to decrease spending on what are considered 'bad' programmes and build up support for 'good' ones.

Unfortunately, most spending areas are still under-researched, but the increasing transparency over the beneficiaries of EU funds presents an opportunity to identify the real European value added. Ongoing scrutiny by CEE Bankwatch and others on the use of structural funds in central and eastern Europe has been complemented by new campaigners such as farmsubsidy.org and fishsubsidy.org. In the context of the current budget review, independent studies and analyses from campaign groups helps to build the case for reformers within the EU institutions. A reliance on studies by the European Commission or European Parliament will hardly alter the status quo.

Secondly, a strategy for change needs to argue for the provision of margins within the different headings or spending areas of the multiannual frameworks. Recent practice has seen the headings fully programmed with the various spending programmes. This leaves no room for new challenges; which are most often social and ecological challenges requiring concerted pan-EU engagement.

Moreover, non-programmed margins would also leave room for a more meaningful annual budget process, in which a fruitful competition should evolve between the European Commission, MEPs and member states over the most effective use of such funds.

The third and so far most underdeveloped area of influence is the own resources side. Even though the revenue decision is formally detached from the financial perspectives, and despite requiring unanimity in Council, it can still offer valuable steering instruments.

Former European commissioner for budget, the German Green Michaele Schreyer, has suggested that ecological taxes could be partly collected via EU mechanisms. More recently the European Commission has discussed ideas to directly charge CO_2 emitters via the EU Emission Trading Scheme (ETS) and use the money raised to fund global efforts in developing countries as part of a global climate deal.[2] We have likewise witnessed a renaissance of the idea of ecological taxes in France, with similar interest also expressed by the European Commission and Swedish Presidency. More such initiatives will need to be launched as the EU seeks the resources required for it to fulfil its international responsibilities on financing climate mitigation and adaptation activities in developing countries while also decarbonising its own energy system over the coming decades.

In this vein, alternative approaches to funding the EU budget that take into account carbon emissions or other ecological concerns must be considered. As discussed in the contribution to this publication by Eulalia Rubio of Notre Europe, such a change would help shift the politics of the EU budget beyond the current restrictions that flow from the combination of VAT and GNI contributions from member states.

continue revising the current financial perspectives

Given the lack of ambition when the current

financial perspectives were negotiated in 2005, it is positive to see how the European Commission has managed to include additional funding priorities in the EU budget via annual revisions of the financial perspectives over recent years.

While there had not been any mid-cycle revision of the perspectives since around 1995, they have been revised every year since 2007 to fund projects as diverse as the Galileo satellite system, the food facility for developing countries and, most recently, energy infrastructure projects as part of the European Economic Recovery Plan. All of these revisions can be traced back to external changes or events such as the unforeseen increase of costs for the agreed Galileo project, or global events like the 2008 food hikes and later the financial crisis. In each case the European Commission was ambitious and clever in using these events as a justification for significant budget increases. These ran counter to member states' perceived narrow national interests but went through nevertheless.

The European Commission and particularly President Barroso has quite openly used this instrument of revision to put a personal note on the EU budget. But this was achieved against the background of possibly the tightest financial perspectives ever. The logic arising from this is that precisely because the financial perspectives are so tight, member states face problems of justification when external events arise that put a strong moral or economic pressure on the EU to react.

Now that revisions of the overarching financial perspectives have almost become part of the annual budget process, there is an opportunity to build momentum in key member states and across civil society in support of low-carbon objectives. President Barroso has referred to the need to improve the budget framework in his 'political guidelines for the next Commission',[3] but will clearly need external support if he is to strive for such revisions. One such occasion may come soon, with the likely need for an improved offer from the EU of fast-start international climate finance as part of the negotiation of a new global climate deal.

The most obvious way to provide new international financial support would be to top-up the financial perspectives and channel the necessary funds through the EU budget. This would be a logical means of delivering a shared EU financing offer, with advantages over the alternative of agreeing national contributions subject to difficult domestic politics for a number of member states. Additionally, it would also allow some scrutiny over the funding process by both member states (via the European Council) and the European Parliament.

make better use of the annual budget

Up until now the annual budget process has rightly received the limited attention it deserved. With practically all spending items programmed for the seven years of the financial perspective, annual expenditures were pretty much fixed predictably for each year. The Council of Ministers and the European Parliament performed their annual game of cutting and raising the lines, predictably finishing up close to where the Commission started the exercise.

All this can change now the Lisbon Treaty has entered into force. The European Parliament has finally gained co-decision power over crucial expenditure items like agriculture, which still represents almost 40 per cent of EU expenditure and has multiple repercussions on the EU's environmental agenda.

New coalitions of green groups, the rural community and MEPs will have opportunities to develop a new form of cooperation to reform the disastrous agricultural and fisheries policies we face today. It seems likely that

issue-linkages will need to be created in which reformist MEPs tie their demands for a reformed CAP to those issues in which national governments have particular interest and MEPs less to lose. These are typically foreign policy matters, but could also concern structural funds or the opportunities for efficiency savings in many areas.

improve how the EU spends its money

While the overall distribution of EU money is fixed with the financial perspectives, the actual beneficiaries and projects are mostly defined by the programming guidelines. Even though there could and should be a major shift of funds towards environmental and energy-friendly programmes, streamlining the existing major programmes probably has a much higher effect in the short run. Both the CAP and cohesion policy guidelines but also the fisheries policy can be much more focused along sustainability concerns.

Such a revision of the operational programmes can only be proposed by the European Commission. The upcoming mid-term reviews of these policy areas offer real alternatives to move ahead as a small first step. The second step will be the new programming guidelines coming up with the new spending envelopes for the post-2013 financial perspective.

Both of these targets provide an opportunity for proposals for more sustainable guidelines for the structural fund that can continue to support growth in lesser-developed regions. Moreover, large parts of the real farming community – particularly those from smaller non-industrial units – can probably be won over with a much more targeted approach to agricultural support based on environmental objectives and job creation.

work towards institutional change

Much of the EU budgetary process is still based on a functioning logic devised for the six EU founding members. The idea that each member state has an implicit veto when matters of great national concern are at stake persists even today. This view needs to be overcome if the transition to a low-carbon economy is to be catalysed through the effective use of EU funds.

Only a breakaway from unanimity might make the budget more responsive to the challenges of the day. With the national veto in place, many old programmes continue to fund regions and policies that have long lost their justification; or indeed those that have avoided the necessary structural changes.

In addition to overcoming the national veto over the financial frameworks (the expenditure side), a change to the need for member state unanimity on the revenue side could present a more radical opportunity. This would pave the way for much more ambitious budgetary instruments that would support policy delivery such as ecological or carbon taxes. Unfortunately, the Lisbon Treaty has not addressed the issue of unanimity on the own resources decision.

Another often forgotten issue is the explicit definition of certain policy objectives like the CAP inside the treaties. This and other objectives defined in the treaties limit the EU's ability to respond to future challenges. This surely is a field for action for future treaty change, whenever member states again feel brave enough to consider tackling institutional matters.

influence the new budgetary process

Now that the Lisbon Treaty has entered into force, a number of important technical adaptations need to be agreed on. Up until now, the three institutions have not shown much willingness to include new political priorities in this process, but some civil society advocacy could help here.

Two changes stand out as most promising. The first touches on the legal nature of the financial perspectives. Until now they had the status of contracts between the European Parliament, European Commission and European Council. The Lisbon Treaty upgrades this inter-institutional agreement (IIA) to the status of a regulation. This might make revisions much harder because only the Commission can propose them and not any of the institutions, as is currently the case. There is a strong democratic rationale for civil society groups and MEPs to keep this option open inside a new regulation as a means of strengthening the European Parliament's hand.

Moreover, the mere transition to a new legal instrument would also open the door for funding shifts or general upgrades of specific fields like climate change. The proposed climate transformation funds or other instruments mobilising further money to combat climate change are suitable instruments to be included in the new regulation before 2013 to give them full footing within the institutional system.

The second opportunity for change is the duration of the multiannual budget. While current practice is for seven-year frameworks, there is both a democratic argument and a reforming tactic in favour of five-year periods. The democratic argument proposes that the frameworks should run parallel to the terms of the European Commission and the European Parliament. This would allow candidates and political parties to make the debate over budgetary promises an essential part of their EU election campaigns.

The reforming tactic approach builds on the assumption of incrementalism: every new framework builds at least in part on the previous and significant budgetary shifts are difficult to achieve. With a shorter interval between multiannual budgets, incremental change is more likely to be realised over a shorter timeframe, even if in smaller steps.

As it currently stands, the European Council is very keen on keeping longer periods, while the European Parliament and European Commission could still be convinced. If this were achieved, a second issue would be how to align the next full five-year period with the election cycle. Some sort of transition period would be needed for the short period from 2014-2015. Should the current framework simply be extended or major change already be aimed at in the transition period? The former might result in a dissipation of momentum for reform now, while the latter could enable a more visible shift in the budget during the next decade. The ambitions of leading member states will be key in determining the way forward.

conclusions

This quick tour of the budget process and institutions has argued that change is possible in a number of fields. Advocates of reform, whether member states, European institutions, or civil society actors, will now need to align themselves around a coherent strategy. Pressure for change will need to be supported by rigorous policy analysis.

The shift to an EU budget that supports Europe's transition to a low-carbon economy is possible. Much can be addressed via implementation issues and a more focused approach to the €130 billion annual EU budget, building the case for serious reform year on year ahead of the negotiation of the next multiannual framework. Taking the EU budget a little more seriously on an ongoing basis can yield great results.

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unlocking a low-carbon Europe

perspectives on EU budget reform

Reform of the EU budget matters deeply for the pursuit of the low-carbon economy. For there is arguably no policy lever as important as the EU budget for setting the direction of EU action. While the size of the budget remains close to just one per cent of EU's Gross National Income, it has the ability to lever additional spending by member states and the private sector. However, it is perhaps its political value that is of most influence. For the way in which the EU spends its resources is the primary indicator of its political priorities and its institutional ability to organise their pursuit.

This collection of viewpoints from diverse businesses and NGOs, social organisations and thinktanks, addresses the political challenge of acting on these two priority areas of climate change and the reform of the EU budget. These will be the defining tasks not just of 2010, but of the new terms in office of the European Commission, European Parliament, and President of the European Council. Successful agenda-setting action in 2010 will set the EU on course for policy delivery throughout this new decade. Movement on the EU budget will help unlock a low-carbon Europe, while the continuing pressure for action on climate change can create the momentum required for budget reform.

about Green Alliance

Green Alliance is one of the UK's most influential environmental organisations. Our aim is to make environmental solutions a priority in British politics. We are an independent charity and work with representatives from political parties, government, business and the NGO sector to encourage new ideas, facilitate dialogue and develop constructive solutions to environmental challenges. Green Alliance works with likeminded organisations and companies to find shared ways forward at EU level.

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