

A greener budget for a more sustainable Europe?

The current EU budget supports an economic model that does not appear to take into account the decline of energy and natural resources. The next seven-year European budget or Multiannual Financial Framework 2014-2020, is an opportunity to rebuild a stronger and more forward-thinking Europe and start investing in it. In these times of budgetary constraints, we must carefully consider how we spend public money in order to anticipate the major challenges faced in the future. What tools does Europe need to facilitate the shift towards a green economy that respects the limits of our planet? Which decisions will lead towards a budget that is more respectful of people and our natural capital?

Sébastien Godinot, Economist at the European Policy Office (EPO) WWF

Sandrine Bélier, European Deputy, Group of the Greens, European Free Alliance, Committee Envi

Patrick Ten Brink, Senior Analyst at the Institute for European Environmental Policy (IEEP)

Head of the round table: **Eulalia Rubio**, Senior Researcher in charge of economic, social and budgetary issues at Notre Europe, Co-author of *Europe for Growth : Towards a radical change in financing the EU*, Notre Europe

Despite the modest amount of the European budget (976 million euros, equivalent to 1% of Europe's GDP), it could play an important role in driving the change towards a green economy. At the dawn of decisive negotiations for the next **Multiannual Financial Framework (MFF i.e., European budget 2014-2020)**, it is necessary to examine the purposes for which European funds are used, and to learn lessons to ensure that the next budget is more sustainable.

WWF proposals for a more sustainable budget

The aim is to ensure that 50% of expenditure in the EU budget for the period 2014-2020 has positive impacts on the environment. Sébastien Godinot

According to the report **Unlocking the potential of the EU budget**, presented by **Sébastien Godinot** of WWF at the start of the table round, in the current European budget (2007-2013), only 8% of funds are allocated to projects with a positive impact on the environment, notably in the areas of climate, renewable energies and biodiversity protection (NB the only programme entirely dedicated to the environment is LIFE+ which represents only 0.2% of the budget).

This percentage, (8%) is equivalent to around 2-4 billion euros: an amount which does not represent the commitments made by the EU in these areas. In terms of the Cohesion Policy, 24% of regional funds, representing 1/3 of the budget, are invested in transport and infrastructure.

Over half these funds are allocated to road transport which produces extremely high levels of greenhouse gas

emissions, and less than one third goes to rail development. This distribution highlights a huge discrepancy between the climate objectives set by Europe in the medium term and expenditure for implementing these public policies.

According to our calculations, we estimate that:

- 20% of expenditure in the current budget has a positive impact - direct or negative - on the environment;
- 25% has a negative impact, and the rest has a low or negligible impact.

WWF is actively campaigning, along with the majority of European environmental NGOs, with the aim of reversing this trend so that 50% of the next budget has positive impacts on the environment.

Working towards the implementation of a more sustainable budget, WWF proposals include eliminating subsidies for activities that cause environmental damage and increasing resources dedicated to the fight against climate change, protection of biodiversity and natural resources (notably water and agricultural land). **Funds that are currently going to environmentally harmful activities could therefore be reallocated to green economy sectors and support:**

- the renewable energy sector and investments linked to energy efficiency, especially in buildings;
- sustainable agricultural models;
- research in terms of eco-innovation;
- the sustainable transport sector;
- development assistance projects in order to deliver on Europe's international commitments.

As well as the environmental impacts of the current budget, Sébastien Godinot mentioned three other factors that could push the decision makers to vote for a more sustainable budget for the period 2014-2020:

- **Current economic model in deadlock.** The alternative model for a green economy presented by the UNEP during the first round table is, in certain countries where it is being tried, revealing concrete and interesting opportunities. However, this new economic model will need public support. The European budget, essentially an investment budget, could play a vital role in the transition towards a green economy.
- **Positive impacts in terms of employment.** The WWF study *Investing for the future : More jobs out of a greener EU budget* estimates that an investment of 1 billion euros from the EU budget over 1 year in the above mentioned sectors would have the potential to create: 53,000 jobs in renewable energies, 30,000 jobs in biodiversity protection, 26,000 in energy efficiency, 22,000 in sustainable transport, and only 17,000 with the current Cohesion fund and 6,000 with the current CAP. These last two figures reveal that current policies are failing to create employment.
- **Public opinion.** According to the Eurobarometer survey carried out in May 2011 (with 26,825 citizens in the 27 member States), 89% of EU citizens would like to see more public investment directed towards environmentally friendly activities.

Sébastien Godinot of WWF brought our attention to some of the existing tools that would contribute to successfully greening the EU budget and to progressively eliminating environmentally harmful subsidies.

As one third of the EU budget is dedicated the Cohesion Policy, it is crucial to implement effective eco-conditionality for all structural and cohesion funds. **Eco-conditionality** must be applied at all stages. Before subsidising a project with European funds, the application of 'ex ante' conditionality will ensure that recipient member States and regions comply with EU environmental legislation.

Earmarking should then be used to ensure effective distribution of funds in order that a minimum amount is allocated to financing environmentally friendly projects. In this respect, the Commission is proposing to allocate at least **20% of funds from ERDF** (European Regional Development Funds, which aims to reinforce economic and social cohesion by correcting regional imbalances within the EU) to regions whose per capita GDP is over 75% of the EU average and **6% to disadvantaged regions**, for investments in energy

efficiency and renewable energy sectors.

Eco-conditionality should also be applied, inter alia, when establishing environmental indicators for co-financed projects. These indicators will measure the impact and performance of environmental actions carried out, and assess their capacity to deliver on objectives set by various EU policies in the areas of energy, climate and biodiversity.

Finally, another **WWF proposal** aims to reinforce the sector for sustainable products and services and the eco-design market: measures to make **green public procurement mandatory** should be put in place for projects subsidised by EU funds. European public markets represent 17% of GDP (2,000 billion euros per year). Reallocating 10% - 20% of this amount to public expenditure for sustainable products and services would have a significant impact on EU market growth.

The Commission's proposals for the 2014-2020 budget are partly along these lines, but the Parliament and Council still have to provide input. The Commission is notably proposing to allocate at least 20% of EU budget to activities related to the fight against climate change (around 200 billion euros for 2014-2020), to improve eco-conditionality of structural and cohesion funds, to grant 30% of direct payments to farmers within the CAP who respect certain environmental best practices, and to allocate at least 25% of spending to a new programme for promoting global public goods with objectives relating to climate change and the environment. It has also proposed to substantially increase budgets for research and infrastructure that are dedicated to green investments.

Video message from Isabelle Durant, Vice-President of the European Parliament, member of the Committee on Budget

Isabelle Durant, Vice-President of the European Parliament, member of the Committee on Budget, who provided a message by video, commented on the centrality of the EU environmental policy: the environment policy is European in essence and for which the Union has more power to act than for certain other policies. It concerns a scope for action that is highly relevant on a transnational scale, because, by definition, environmental issues are not exclusively regional or national. However, the objectives for this policy are still under-represented within the budget framework that is presently under negotiation. Isabelle Durant paid tribute to the work carried out by WWF in this area and encouraged it to continue throughout the negotiations, notably on the subject of tools and criteria for eco-conditionality that could also provide beneficial/profitable results in the areas of thematic policies and of implementing directives.

Cohesion policy, a potential lever for transition

In order to implement eco-conditionality at the level of regional policy integration, the EU will need to provide technical support for establishing, selecting and assessing projects. **Patrick Ten Brink**

Patrick Ten Brink paid particular attention to the Cohesion Policy as a driver in the transition towards a more sustainable economy. The role of the Cohesion Policy and principal objectives appear to be coherent with the issues that need an efficient strategy to tackle and adapt to climate change, taking into account the following factors:

1. climate change impact can vary from one territory to another;
2. increased economic discrepancies caused by economic losses in certain key sectors;
3. investments in the area of climate change (efficiency, resilience etc.) could stimulate economic growth in these territories;
4. inter-State solidarity contributes to efforts made by member States to deliver strategic objectives in the areas of climate and energy for Europe 2020.

In order to guarantee that the Cohesion policy plays an important role as a tool of transition towards a green economy, **issues relating to the climate and the environment must be systematically integrated in all important policies, programmes and projects, and at each and every level of governance: European, national and regional.** This mainstream approach also requires the implementation of tools as mentioned by Sébastien Godinot: earmarking and eco-conditionality. A successful eco-conditionality strategy at a regional level will depend largely upon how it is implemented on the ground. In this context, it must be taken into account that certain EU regions, in particular in Central and Eastern Europe, have problems with administrative capacity and lack of expertise.

In order for eco-conditionality to become an effective decision-making tool, the EU must provide technical support to regional authorities for establishing, selecting and assessing projects. Among procedural tools mentioned and used in the assessment and eco-conditionality of regional investment projects, Patrick Ten Brink mentioned the French example, Necater. This is a carbon proofing tool which can calculate, based on amounts invested, potential greenhouse gas emissions by project category (transport, buildings etc.) as well as potential job creation.

In the context of negotiations for the Multiannual Financial Framework

The European Parliament will play a major role in negotiating the budget for sectoral policies that are subject to co-decision. **Sandrine Bélier**

Finally, **Sandrine Belier**, Member of the European Parliament, outlined the context of the ongoing negotiations relating to the MFF, in particular with regard to the Parliament's proposals. The MFF can only be adopted unanimously by all 27 States and the decision has to be ratified by national parliaments. The Commission's proposal is presently before the Council who should make a decision before the end of the year on the total amount, distribution by category and on the financing system for the next MFF.

It is widely predicted that the Council will make further reductions in the proposal from the Commission (who proposed an expenditure freeze for 2013), which implies cuts to environmental funding. **At this stage of negotiations, the European Parliament's influence is rather limited:** it must take a block vote - for or against - the proposal adopted by the Council, but cannot make any modifications to it. However, the Parliament could express a majority vote in favour of rejection if the Council's proposal does not correspond to requirements: an increase in the amount of the budget (5%), a reform of the financing system - in particular, by introducing an environmental and social tax within EU borders - and increased flexibility in the MFF in order to ensure full implementation. However, with regard to sectoral legislative proposals (CAP, Cohesion Policy etc.) the Parliament has more negotiating power as this legislation is subject to co-decision. For the moment, **the Parliament has made positive amendments to the proposals concerning the Cohesion Policy, but is maintaining a more conservative position regarding the CAP reform,** which will be addressed in the next round table.

Eulalia Rubio, Senior Researcher, Notre Europe

