EU LEVERS TO ACCELERATE CITY ACTIONS ON CLIMATE CHANGE MITIGATION

CEPS TASK FORCE REPORT

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EXECUTIVE SUMMARY

There is an increasing recognition that urban areas – home to around three quarters of the EU’s citizens – hold one of the main keys to addressing climate change; many accept the view that the fight against climate change will be won or lost in urban areas. The concentration of emissions caused by city activity (either directly within the city area or by goods and services, such as electricity generation, that are produced beyond its boundaries) allow us to address a significant amount of emissions at one stroke. Local governments can have considerable regulatory and financial power to engage in low-carbon and sustainable investment while at the same time being suppliers of services, consumers of energy and other natural resources, purchasers of products and services, planners and instigators of change.

The European Commission has launched the Covenant of Mayors to give recognition to, accelerate, and support the actions of urban and local governments. This CEPS Task Force has taken stock of ongoing policy design and implementation with a view to both analysing existing policy and identifying next steps to further both the conceptual and practical implementation of the EU’s emerging mitigation strategy for urban areas.

1. There is significant potential in empowering local governments. This is manifest in the interest of many local governments to undertake immediate action and to develop low carbon plans, constituting an unprecedented opportunity for experimentation with concept, tools or data. The EU’s Covenant of Mayors has been a particularly important catalyst – mainly but not only – in recognising and then supporting local government actions. However, in order to continue and accelerate progress, these bottom-up initiatives will need to be embedded and supported by some kind of EU framework that ensures legitimacy and efficiency, builds institutional capacity, develops the necessary tools and meets the financing requirements.

2. In the wake of these initiatives, many permanent and ad hoc networks have emerged. Better co-ordination of ongoing activities between networks as well as linking with research could accelerate and focus the direction of initiatives, facilitating attempts to ensure coherence both with EU policies and finance instruments.

3. For the EU, the main challenge is to maintain the momentum and translate the initiatives as fast as possible into ‘real and measurable’ emissions reductions. This will depend to a large extent on i) local governments’ capacity to act, ii) coherence of EU and member state policies and iii) on tools that ensure that emissions reductions are measured, reported and verified in a consistent and transparent way.

Capacity to act

4. A key determinant for the capacity to act are i) legal competencies, ii) access to finance and to a lesser extent iii) the need to ensure a long-term credible political commitment.

Competencies

While local governments can impact emissions in many ways (e.g. through planning, information and awareness or local government services and operations), cities typically control only a small part of the emissions with most of the GHG regulation being regulated at EU or member state level. Local level sustainability plans, however, are an indispensable building block for low-carbon development and are therefore critical to the success of EU climate change policy. Local low-carbon plans can guide
investment, identify win-win solutions and make local benefits more visible. Nevertheless, the relationship of these plans to existing planning tools and documents must be clearly established to reinforce and ensure their operational role.

**Access to finance**

The availability and proper use of finance is indispensable not only for the direct funding of projects and programmes but also for the hiring of the technical staff necessary to conduct robust GHG inventories and calculate marginal abatement cost curves, etc. The analysis in this Task Force suggests that there are various problems linked to financing: a) the local budget priorities are often not in line with emission reduction objectives, b) the ability of cities to raise finance is often limited by legal restrictions on their areas of competence with regard to regulating, taxing or subsidising activities, c) a lack of local capacity to understand and use the large number of available financial instruments efficiently, either from the EU budget, the European Investment Bank, or from instruments such as CDM and JI mechanisms.

For the EU it is necessary to re-allocate some European Structural Funds money towards ‘greening’ the economy, starting from the 2010 mid-term review of the funds, and following with a deeper concerted focus on driving low-carbon development in view of re-designing the regulations for the next financial perspectives post-2013. This has to be achieved taking into account the importance of cities and all the resulting economic activity.

**A long-term commitment**

The time limitations of the political mandate related to the election cycle can make long-term commitments difficult. This challenge can be turned to an advantage by motivating local governments to engage in discussions, strategies and ultimately action plans on a sustainable future, as has happened at the EU level through the Covenant. Such plans might be indispensable to the capacity to make investments consistent between short-term efficiency improvements and long-term systems transformation.

**Coherence**

5. A major challenge is to ensure coherence in different forms, such as consistent, non-overlapping regulatory boundaries to avoid double-regulation or double-counting, including consistency between EU and member state policies or within EU policies, and between policies and finance mechanisms. Such coherence is a precondition for local governments’ ability to act, as well as a permanent task for EU and member state policy-makers. Double-counting and regulation is to some extent addressed by a clearer definition and description of regulatory powers and competencies, for example expressed in the Sustainable Energy Action Plans from the Covenant. At EU level policy coherence will mean integrating climate change objectives into laws, regulations and finance instruments such as the Structural Funds.

**Measuring, reporting and verification protocols**

6. Living up to the goal of low-carbon development plans and GHG emissions reductions will ultimately require appropriate GHG emissions measuring and accounting. Measuring and accounting is also essential for financial support, be it from public budgets or carbon markets (in the long run). Agreed, consistent (at least) across the EU and transparent measuring, reporting and verification protocols are a precondition to empowering local governments. To date, emissions are reported
according to different methodologies, making comparison impossible. This will not only act as a break to increase credibility and acceptability of measures but also as an impediment to access to finance from public budgets, capital markets or the EU Emissions Trading System (ETS), should local government actions be allowed to generate eligible credits. A major challenge for such an EU-wide (or worldwide if possible) measuring, reporting and verification protocol will be to allow quantifying (i.e. translation in tons of reductions) policy-based targets, as such targets will most likely remain the principal type of local government commitment.

7. Against this background, the Task Force has identified the following concrete, yet broad steps for the EU to move forward:

- Develop an EU-wide measurement, reporting and verification protocol, robust enough to allow eventual linking to the EU ETS, for example through domestic offset project frameworks, the Kyoto mechanisms and fostering the development of measurement technologies.

- Ensure access to finance through the alignment of existing financing instruments (e.g. EU funds, instruments of the European Investment Bank of new instruments such as project-based mechanisms) to the needs of local governments – in terms of level of finance and procedures. In addition, there is a need for capacity (-building) for local governments to be better able to draw from existing finance sources.

- Continue to formalise Benchmarks of Excellence as a European Best Practice Forum to encourage successful local governments to introduce new and innovative ideas and practices to assist others in adapting this best-practice. This could be combined with an EU-wide evaluation (i.e. ‘best-in-class competition’) of local actions (initially on a voluntary basis) either at EU or member state level or both.

- Strengthen where existing and construct where missing, the EU-level capacity for economic analysis, such as marginal abatement cost curves to assess the potential or identify more promising actions through, for example, the EU’s R&D Framework programmes;

- Increase financial support for experimental work and pilot projects that have the potential to break new ground for example through a well-funded and designed strategy energy technology (SET) plan;

- Launch an open debate on the need to transfer regulatory or tax competencies to the local level of governance;

- Initiate a debate on the need for introducing ‘eco-conditionality’ (or ‘green-proofing’ and possibly ‘green procurement’) into the new EU Budget Regulations for the Financial Perspective post-2014.

8. A kick-start is required. This could be achieved by launching in 2011, as well as consolidating and building upon existing initiatives:

a. Some **five to ten highly visible urban pilot projects** to develop transferable methodologies for key areas, such as planning and governance, local taxation, economic analysis tools, measurement technologies, GHG accounting and compliance tools, a finance framework, as well as a template for local government communication with the objective to develop EU-wide (or worldwide if possible) harmonised methodologies or, if not suitable, best practices in order to allow scaling up of actions within the Covenant or beyond.
b. **Public-private partnerships (PPPs)** on key integration areas in the field of research and development as well as demonstration in all future technologies relevant to urban areas such as smart grids, energy efficiency, sustainable trams and metros, electric vehicles, and associated infrastructure issues, demand-side measures, decentralised power generation, buildings and transport. Based on the integration of different actors, disciplines and technologies, the PPPs could become a major tool to develop financial packages to drive technological innovation at and for the local level.

c. **A European forum for sustainable urban areas** based on the public-private partnerships and existing fora, notably the Covenant, to complement the pilot projects and the PPPs to essentially communicate and refine available information on urban performance indicators, finance models, governance, GHG accounting, or (green) public procurement as the means for local governments to act. This Forum should be set up with the objective to discuss and develop workable, practical and efficient solutions to political, technical and finance issues via the creation of templates (‘blueprinting’) based on existing information.¹ The platform would bring together policy-making at EU, member state, local and urban level, a broad range of industries as solution providers, the research community as a source for tools, and civil society in short, all those primarily concerned by this issue.

¹ Comparable to the Open Days of DG Regio.