CEPS TASK FORCE ON

A GREEN BUDGET FOR A SUSTAINABLE FUTURE: ADAPTING THE EU BUDGET TO CLIMATE CHANGE

Chairman: Anders Wijkman, Member of the European Parliament

Rapporteurs: Jorge Núñez Ferrer, Associate Research Fellow, CEPS
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Introduction

Adaptation and mitigation for climate change is a global responsibility and the EU has to develop a common strategy to tackle the consequences for the member states as well as fulfilling its international obligations. There are clearly hardly any dissenting voices on such a statement, but there is also little clarity on what this means in practice, in particular: Which actions should be undertaken at European level? Is the budget adapted to the challenges ahead and coherent with EU mitigation and adaptation objectives? What are the costs for the EU and what should or could be the role of the EU budget? Are there sufficient resources to tackle the needs?

These questions will lie at the centre of future decisions, as with all airborne pollutants the regional origin of those and the resulting impacts are geographically distinct.

There is little certainty on costs. The global financial and budgetary implications of climate change have recently been the subject of numerous studies. A common feature of these studies is the difficulty of calculating costs (and benefits) of climate change policies, which are characterised by immense complexity and great uncertainty. Such financial implications are related to average annual cost estimates, which differ greatly, ranging from 0.6% to 1.6% of total gross domestic product worldwide – or between about €230 and €614 billion annually (based on global GDP for 2006). It should be noted, however, that these figures include both public and private expenditures and that the final level of public spending is subject to political decisions.

The estimated magnitude of the European Union’s share in total global costs could range from €24 to €194 billion annually.

According to estimations by CEPS\textsuperscript{1} we judge that realistic scenarios indicate annual costs of €60 billion and above, given the rationale of taking historical emissions levels and thus the historical responsibility for climate change into account. Of these a third are to be covered by the public sector. Financing must cover domestic as well as assistance to developing countries for mitigation and adaptation activities as a result of historical responsibilities, taking into account the need to further reinforce support for humanitarian aid, expected to require increased resources. A key priority is the power sector and the energy system as such, including specific energy sector adaptation.\textsuperscript{2}

The coordination of global action against climate change and its impacts is better dealt with in the framework of organisations like the United Nations Framework Convention on Climate Change (UNFCCC) or other UN organisations. At regional level, however, action is best coordinated by the EU, including to an important extent allocation of financial resources. In principle, cross-border pollutants are most efficiently and effectively dealt with at supranational level, because national policies for abatement of pollution will tend to address only those costs falling on the country’s territory. Supranational action is required to ensure that all externalities are factored in.

The EU budget can internally assist in reducing emissions and diminishing the adaptation burden for those member states

\textsuperscript{1} Behrens, A., Egenhofer C., Núñez Ferrer, J. (2008), ‘Does the EU have sufficient resources to meet its objectives on energy policy and climate change?’, Study for the Policy Department on Budgetary Affairs, European Parliament, 6/3/2008.

that will suffer the most and bear the heaviest financial consequences of dealing with emissions. The former is in accordance with the subsidiarity principle, the latter with the principle of solidarity in the EU\(^3\).

Externally, the EU can participate in financing the global obligations in the fight against climate change. Coordination of external actions is better served in a common approach.

The EU budget seems thus to have potentially an important role to play in mitigation and adaptation actions. How the EU budget could or should contribute has, however, been scantly discussed. The budget’s role and the necessary instruments are still to be defined with any clarity.

**Reviewing the EU Budget**

It is not necessary for the EU budget to finance all the costs incurred, and in any case it is unrealistic to expect that it will have the capacity to do so. Nevertheless, based on the subsidiarity principle, the EU budget has a role to play in terms of financial solidarity and a fair distribution of the costs of adaptation, mitigation and abatement. The budget also has a role in fostering economies of scale in R&D by pooling resources and as a catalyst for investments in emissions-curbing actions and technologies.

Studies on the EU budget\(^4\), however, show that it hardly addresses these areas, with the notable exception of funding for R&D. Research and development (R&D), investment in alternative and renewable energy and energy efficiency have become priority policy areas for the EU.

There is an important scope for improvement and as the recent ECORYS report\(^5\) on the EU budget commissioned by the European Commission, climate change should be a main priority.

Although the reduction of greenhouse gas (GHG) emissions is mentioned in the various guidelines of the budget, on many occasions it seems an insertion without much substance. Analysis of the regional operational programmes in member states benefiting from structural funds for convergence confirms that expenditures on energy efficiency and renewables are generally low and cannot be expected to offset the expected increases in emissions from planned developments co-financed by the EU, especially for transport and tourism. Programmes concentrate primarily on fostering growth with a relatively loose interpretation of the environmental sustainability of the investments.

**Reforming EU actions**

While some member states have redirected state aids to horizontal priorities in the environment and energy-saving activities, the share of state aid for these priorities in cohesion countries is very low. A stronger emphasis on environmental investments and climate change actions is thus

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necessary. As far as adaptation measures are concerned, the issue is just starting to attract attention.

More weight on environmental investments could be given by requiring, for example, the integration of high standards for energy efficiency in all areas of EU assistance.

In general, the EU budget is not well designed to efficiently address the challenges ahead. Earmarking existing funds for climate change and/or creating a dedicated budget line would improve the budget’s capability to deal with these issues. There should be a clear requirement for other expenditures to be “climate proof”, i.e. to include actions to avoid or reduce emissions and ensure climate vulnerability is factored in (this is part of adaptation and important in the case of infrastructures for example). In addition, and to ensure the efficient allocation of funds, the EU needs to find a formula to avoid pre-allocation of funds based on political considerations rather than on efficiency criteria and needs. An approach characterised by net balance considerations would strongly influence the efficiency of the investments.

**Coherence**

Just concentrating on the EU budget as a stand alone item is not sufficient. The EU budget should be seen as another element of national actions and be adequately integrated with them. There is a need to ensure that the global, EU and national efforts provide a robust and coherent response to the challenges ahead.

**Adequate resources**

The resources necessary to address the challenges of the EU need to be discussed. This should not be confused with EU budget resources, but it concerns the fiscal instruments such as the ETS (Emissions Trading System). The ETS is a European fiscal instrument estimated to be worth 30 to 50 billion € or more after 2012 in revenues, even if not part of the European Union budget. There is a need to discuss if, how and by whom the revenues of such a system are be used to cover the financial obligations of the EU. Is this to be done through national administrations alone; is there a role for the EU? In theory, a reallocation of resources at EU level for internal and external actions could achieve higher returns in mitigation and adaptation. Some EU countries, for example, have already complained about the fact that the ETS will hit particularly strongly poorer but more energy intensive member states. Some positive “assistance” through revenue redistribution could be envisaged.

**Objective**

The objective of the Task Force is to create political momentum for the “greening of the EU budget” ahead of the EP elections.

This Task Force will aim at:

- creating a group of stakeholders in all major parties of the European Parliament, who are willing to campaign on a “greening the platform” agenda;
- thinking through some of the analytical and political challenges related to greening the budget;
- undertaking a series of outreach activities in and with the European Parliament to firmly establish the “greening” of the policy agenda.

In order to achieve these objectives, this CEPS Task Force is undertaken jointly with Anders Wijkman, MEP from Sweden, who has agreed to chair the Task Force. The Task Force will be completed by 22/23 April EP Plenary session in Strasbourg.

All three meetings will be held in the EP (3 March in Brussels; 1 April in Brussels; 22 or 23 April, Strasbourg). During the
third meeting, CEPS will produce short briefing papers with operational recommendations and invite a number of key MEPs to comment on them.

During the EP **Plenary from 4-7 May**, the report will be **officially launched** in a short 1.5hrs or so meeting. This will be complemented by a **dinner or lunch** during the Plenary session.

Still before the EP elections, CEPS will hold a conference to present the findings to a wider public.

In terms of content, the task force aims at proposing practical reforms which could address the shortcomings in the area of climate change.
THE CEPS TASK FORCE: ORGANISATION AND GOVERNANCE IN DETAIL

Meetings:

- Two task force meetings arranged over March and April. The first and second meeting planned for the 3rd of March and 1st of April 2009 in the European Parliament in Brussels.
- Briefings on the different issues discussed in the Task Force meetings will then be presented in a larger meeting preliminarily scheduled for the 22 April in the European Parliament in Strasbourg coinciding with the Plenary Session. Key MEPs from the main parties will be asked to present their views on the issue and the reports by the Task Force.
- Launch of the final report in the EP during the last Plenary session on 4-7 May.
- Public CEPS conference (half day) to present findings to a wider public.

Key staff

The task force will be chaired by Anders Wijkman, MEP.

The lead rapporteur of the Task Force will be Jorge Núñez Ferrer, Associate Research Fellow of CEPS specialised in EU budgetary issues. He will be supported by Christian Egenhofer, Head of the energy and climate programme, Noriko Fujiwara, Head of Climate Change and Research Fellow, CEPS and Arno Behrens, Research Fellow, specialising in climate and finance issues.

Outreach activities will be led by Monica Alessi, Programme Manager and in charge of outreach for climate change and energy at CEPS.

WHY A CEPS TASK FORCE AND HOW DOES IT WORK?

The CEPS Task Force will constitute a unique forum of representatives from the European Commission, Members of the European Parliament, officials from member states, business and industry, NGOs and other stakeholders to discuss highly topical issues in a multi-stakeholder setting. The objective of a task force is i) to create a process where issues can be analysed in open but structured discussion and ii) to publish an authoritative analysis leading to policy recommendations. CEPS will produce an (operational) synthesis report for each meeting. At the end of the Task Force, CEPS will publish and circulate among EU and member state policy circles policy recommendations together with a background report, which will be also formally published in the CEPS Task Force Report publication Series. The Background Report will be based on discussion in the meetings supplemented by research carried out by the rapporteurs.

Potential members of the Task Force are MEPs, Representatives from the European Commission, member states, other EU institutions, NGOs, academia and key stakeholders from business and industry.

CEPS has a track record of having run over 50 task forces. See: http://shop.ceps.eu/BooksList.php?category_id=1
Indicative schedule of meetings and topics:

Launch Event:
EU BUDGET AND CLIMATE CHANGE
WHERE DO WE STAND?
3rd of March 2009
European Parliament, Brussels
Under this heading we propose to analyse the present stand of EU policies and the EU budget and their capacity to reach the goals stated in the energy package of the EU. It will review the present knowledge on expected impacts of climate change in the EU and the timescale of those impacts comparing the identified needs to the present developments in the EU budget review.

Issues addressed in the first meeting:
What are the expected impacts for Europe in the medium term?
Overview of the EU policy initiatives
Does the EU have the resources to meet its objectives?
The EU Budget review and adapting the EU budget

MEETING 2:
REFORMING THE EU BUDGET & POLICY COHERENCE
Planned for 1st April 2009
European Parliament, Brussels
This session will be dedicated to more specific reforms in the EU budget. It will then discuss the required actions and the policy process needed to address efficiently the indicated risks.

Indicative Programme
The role of the EU budget in cases of natural disasters
The external dimension of the EU budget in relation to mitigation and adaptation
A review of the ETS mechanisms and possible links with EU budgetary actions
Coherence with national policies

MEETING 3:
EU BUDGET AND CLIMATE CHANGE
THE WAY FORWARD
Planned for 29 April 2009
European Parliament, Strasbourg
The work of the task force will be presented and discussed by key Members of Parliament and officials of the European Commission.

CEPS final conference and Final REPORT:
End of May 2009
**CONDITIONS FOR PARTICIPATION**

The CEPS Task Force is principally designed for CEPS Corporate Members but participation is open to non-members as well, at a higher fee. The fee covers participation in all workshops, documentation, lunches and three copies of all reports produced.

**Fee Structure**

Participation fee for:
- CEPS Corporate Members: EUR 1,000 + VAT
- Non-members: EUR 7,000 + VAT

To register, please use the Registration Form in the Appendix of this document.

**About CEPS**

The Centre for European Policy Studies, based in Brussels, was launched as an independent research institute in 1983 to encourage the study and discussion of public affairs in Europe. It aims:

- to provide decision-makers, inside and outside government, with authoritative and independent analysis of European affairs;
- to contribute to the public debate about European institutions and policies through sound research and judgement; and,
- to create a network of leaders and thoughtful individuals who are committed to working together to enhance the development of European integration and co-operation.

CEPS is funded by corporations, public bodies, membership fee dues and income from activities.

If you have any questions regarding the Task Force, please contact:

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REGISTRATION FORM

CEPS Task Force

A GREEN BUDGET FOR A SUSTAINABLE FUTURE: ADAPTING THE EU BUDGET TO CLIMATE CHANGE

at the European Parliament
EU BUDGET AND CLIMATE CHANGE
WHERE DO WE STAND?
29th of April 2009

A participation fee for the task force including all task force meetings of €1,000 applies for CEPS Corporate Members, while €7,000 applies for non-members.

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Please tick correct box:

- My company is a corporate member of CEPS and pays €1,000 (+21% VAT).
- My company is not a corporate member of CEPS and pays €7,000 (+21% VAT).
- My company is interested in becoming a member of CEPS. Please send additional information.

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