

“green
alliance...”

**investing in our future:
a European budget
for climate security**

investing in our future: a European budget for climate security

By Stephen Hale, with Stuart H Singleton-White

Published by Green Alliance, October 2007

Designed and printed by Seacourt

© Green Alliance 2007

£5 (€7.00)

ISBN 978-1-905869-07-7

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, without the prior permission in writing of Green Alliance. Within the UK, exceptions are allowed in respect of any fair dealing for the purposes of private research or study, or criticism or review, as permitted under the Copyright, Design and Patents Act, 1988, or in the case of reprographic reproduction in accordance with the terms of the licenses issued by the Copyright Licensing Agency.

This report is sold subject to condition that it shall not, by way of trade or otherwise, be lent, resold, hired out or otherwise circulated without the publisher's prior consent in any form of binding or cover other than in which it was published and without a similar condition including the condition being imposed on a subsequent purchaser.

Green Alliance

Green Alliance is an independent charity. Our mission is to promote sustainable development by ensuring that environmental solutions are a priority in British and European politics. We work with representatives from the three main political parties, government, business and the NGO sector to encourage new ideas, facilitate dialogue and develop constructive solutions to environmental challenges.

Green Alliance

36 Buckingham Palace Road, London, SW1W 0RE

tel: 020 7233 7433 fax: 020 7233 9033

email: ga@green-alliance.org.uk

website: www.green-alliance.org.uk

Green Alliance is a registered charity number 1045395.

Company Limited by guarantee, registered number 3037633

Acknowledgements

We gratefully acknowledge the support, input, advice and encouragement from: Andrew Birkby, Tom Burke, Jeff Chapman, Malcolm Fergusson, Peter Hobson, Martin Kremer, Stefanie Lang, Tony Long, Chris Littlecott, Nick Mabey, Sally Nicholson, Siân Petito Hughes, Martin Porter and David Wilkinson.

contents

investing in our future: a European budget for climate security

executive summary	_02
1. Europe's approach to climate change: rising to the challenge?	_04
2. how much does the EU budget matter?	_08
3. what is the current EU budget for?	_12
4. proposals for a 21st century budget	_17
5. conclusion	_22
references	_23

executive summary

The search for security and prosperity has been the driving force behind the post war European project. It has been a remarkably successful venture, the world's boldest and most effective experiment in pooling sovereignty to solve shared problems. The European Union (EU) and its predecessors have played a critical role in expanding the realm of peace and prosperity to include increasing numbers of European citizens.

But there is now compelling evidence that runaway climate change puts at risk our future security and prosperity. It would bring with it a series of profound and interconnected set of economic, social, security and environmental impacts that would do immense damage to our planet and our well-being. No country or region, however rich, would be immune. These impacts of climate change will be most severely felt by the poorest countries both within Europe and beyond it.

This threat places an immense responsibility on Europe's new generation of political leaders. It is the ultimate test of the benefits of European co-operation. As the world's most cohesive regional group, Europe is better placed than any other actor on the global stage to shape a successful global response to climate change. Climate change must be the organising principle for future European action within the Union and also for our engagement with China, India and those countries most at risk from climate change.

Over the past two years, Europe's leaders have begun to give climate change the prominence it deserves. The spring 2007 European Council was a milestone, agreeing ambitious targets to reduce emissions and expand renewable energy by 2020.¹

But a step change in commitment is needed. The key to achieving this is to make effective connections between climate change and other European priorities, in particular the Lisbon competitiveness agenda. There is growing recognition of the connections between environmental and economic policy in the Commission, the German government and elsewhere.² But there is a long way to go. 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.

The EU budget is an essential part of a successful European response. A major increase in global public investment is a prerequisite to an effective response to climate change. The current EU budget may well increase rather than reduce EU emissions, due to investments in high carbon transport and energy infrastructure and the impact of intensive farming practices.

The current review should be the starting point for an EU budget focused on climate change, and the take-off of a new low carbon and high-tech global economy with emissions reduction on the scale needed.

EU spending must be focused where it can make the greatest impact in Europe and beyond; it must address the global and regional inequities of climate change; and set the standard for global public investment. The EU budget should invest around 32-38 billion euros annually in five priority areas:

Five priority areas for the EU budget

- **For Europe's energy and transport infrastructure, a new dedicated low-carbon fund should be established** with an annual budget of 13-16 billion euros. All EU cohesion fund spending should be climate proofed by assessing it for its consistency with national emissions targets.
- **For carbon capture and storage, 3-5 billion euros per year should be set aside** to secure the 10-12 pilot plants proposed by 2015 and kick start the global discovery of the viability and cost of carbon capture and storage technologies. Future plants should be financed without the use of public funds.
- **For research and development, 7.5-8.5 billion euros per year should be dedicated to bringing breakthrough technologies to market**, in line with the Stern report's call for a doubling of global spending on research and development.
- To support the development of low-carbon infrastructure in countries such as China and India, **the EU should establish a sovereign investment fund of about one billion euros a year**, managed by the private sector. This would give the EU a stake in their low carbon economies, as the EU has done closer to home.
- **For adaptation in the poorest countries, 7.5 billion euros per year should be provided** at EU level to ensure that Europe meets its fair share of the global cost of enabling the poorest countries to adapt to climate change.

Each of these proposals needs further work. But we urge all those contributing to this debate to offer alternative solutions that are commensurate with the scale of the challenge, and which leverage the public and private investment in a low carbon economy that we so urgently need.

There are two ways in which Europe's leaders could finance a climate change package on this scale. The majority of this funding could be found from within the current budget, through the use of cohesion funds and a radical reform of the Common Agricultural Policy.

It could also be financed even without reform. The auctioning of power sector allowances in the next phase of the EU emissions trading scheme, from 2013 onwards, is justified on economic grounds alone, and would provide a new revenue source of around 28 billion euros. There is a political and economical case for a common

European approach to auctioning. It would have wider benefits for the budget process, by providing a new source of funding to diminish the focus on member state contributions. This is a political choice. But one of these routes must be taken.

When should this funding be established? Early investment will pay the greatest dividends. The Union can and should achieve major shifts in structural and cohesion funding, research and development and adaptation prior to 2013. The full transition to investment on this scale should take place rapidly after that.

If Europe's leaders fail to make that shift, the prospects for peace and security in Europe and beyond will be radically diminished. Europe's leaders have recognised the urgency and scale of the threat of climate change. They must now offer solutions commensurate with that analysis.

1. Europe's approach to climate change: rising to the challenge?

Europe's triumph

The post-war European project began with six countries in western Europe, and with coal and steel. But its founding purpose was peace. Fifty years on, the European Economic Community founded by six states in 1957 has grown to a club of 27 states, and extended its competency into almost every area of public policy. It has done so peacefully and voluntarily. The creation and development of the European Union (EU) has played an important role in keeping the peace in much of Europe and helped to spread democracy throughout the continent. The Union's population now stands at nearly 500 million citizens. More are clamouring to join.

The European project has also brought economic and social success to those who live within its borders. The EU is now the world's largest economy, trading block and supplier of capital. It adds around twice as much global purchasing power every year as China.³ The single European market is the world's largest trading market and the best regulated.

Europe's successes have primarily been achieved within its borders. But the Union has also established a coherent and effective role in some areas of international diplomacy and governance. In trade, aid (the EU is the world's largest provider of overseas development aid) and climate change the EU is now a powerful global player.

Europe's fragility

This evolution has been underpinned by a shared recognition of member states' mutual interests among the political leadership and, for the most part, among their electorates.

That progress is now at risk. The rapid enlargement of Europe has been accompanied by a deteriorating relationship between the Union and its citizens, and increasing remoteness and hostility to European institutions. The rejection of the EU constitution by voters in France and the Netherlands in 2005 sent shock waves through Europe's political class. But in retrospect, many saw these defeats as a predictable by-product of rising public hostility. The Commission's own report to the European Council in 2005 reported that:

“While membership of the European Union is still supported by 54 per cent of EU citizens, the image of the European Union has steadily decreased in citizens' eyes with only 47 per cent of respondents giving a positive response.”⁴

This crisis was a long time in the making, with a range of causes. Europe's leaders had failed to communicate the benefits of European action and too often blamed Brussels for unpopular decisions. A hostile media in some countries has also contributed. But most seriously, it stemmed in part from a political failure to focus European efforts on public priorities and concerns.

These defeats were followed by a 'period of reflection' for the European Commission and member states. The Commission launched an action plan on communicating Europe and Plan D - an initiative to re-engage with Europe's citizens. But these exercises have not impacted on the public consciousness of Europe's citizens and have had very little practical effect on the collective priorities or approach taken by either the Commission or member states.

Europe's leaders are now focused inwards once more, embroiled in efforts to agree on a successor to the failed constitution of 2005. Public attitudes to Europe remain unfavourable. Despite small improvements, 46 per cent of EU citizens still do not have a positive view of the European Union.⁵ Citizens of Austria and the UK do not believe that their countries have benefited from EU membership.

Europe is now a successful project in search of a new rationale and priorities. To recover legitimacy, it must refocus on the strategic challenges facing Europe in the 21st century. Without a strategic vision and clear evidence of added value, the continued growth of scepticism and nationalism seems all but certain. The EU can do better. The EU must do better.

Where does climate change fit in?

As Tom Burke and Nick Mabey of E3G remind us in their recent, seminal pamphlet, *Europe in the world: Political choices for security and prosperity*,⁶ the foundations of our security and prosperity lie in our success or failure to respect our natural environment. A stable climate, food, water and energy are indispensable to our prosperity and security.

The EU has been a powerful driver of environmental improvement over the past thirty years. EU legislation has played a vital role in species protection, habitat and ecosystem protection and the management of river and freshwater systems. European regulatory regimes for point source pollution have led to dramatic improvements in air, water and beach quality. More progress is still needed in these areas.

But a new environmental issue has emerged that poses risks of an entirely different order to the well-being of our planet and of humankind. That issue, of course, is climate change. Unless we tackle it effectively, progress on not just environmental but also economic and social issues will be undone.

The Intergovernmental Panel on Climate Change is the world's most authoritative scientific assessment of what is at stake. Their most recent report suggests that global temperatures could rise by more than four degrees this century, with significant impacts on sea levels, ecosystems and weather patterns.⁷ The global, regional and national implications of these changes are now widely reported but far too little understood.

The Stern review, commissioned by the UK government, has helped to bring this to public attention by focusing on the economic effects of these impacts and the economic case for an effective response. It predicts that the global economic cost of climate change could be greater than the great recession of the 1930s or either World War.⁸

An authoritative assessment of the overall direct and indirect impacts and costs of climate change on the European economy does not yet exist. But Stern's overall analysis is broadly applicable to Europe, and we have increasing evidence from recent experience of what is at stake. Extreme weather events now cost the EU 11 billion dollars per year on average. The heat wave of 2003, for instance, cost the EU 15 billion dollars in agricultural losses alone.⁹ But those temperatures could be common occurrences by 2050.

“the impacts of climate change are likely to be particularly severe in southern Europe, and will exacerbate economic inequalities within the EU”

The impacts of climate change are likely to be particularly severe in southern Europe, and will exacerbate economic inequalities within the EU. Particular risks within the EU include greater risk of flooding in the north and widespread water scarcity in the south.¹⁰

The summer of 2007 offered some pointers to what lies ahead. While Greece and other Mediterranean countries were experiencing forest fires exacerbated by high temperatures, the UK was coping with its worst flooding for sixty years.

Europe's response

Europe has played an important role in the collective international response so far to climate change. The ratification of the Kyoto Protocol was the result of European leadership. Europe introduced the world's first carbon market and, despite a difficult birth, the EU emissions trading scheme is already the world's most important mechanism for reducing carbon emissions.

But Europe's progress to-date against its current commitments has been poor. The European Environment Agency's (EEA) latest reports now predict that the EU will meet its Kyoto target of minus eight per cent emissions by 2012, from a 1990 baseline.¹¹ But this assumes the full implementation of planned policies, and relies heavily on the mechanisms within the Kyoto Protocol that incentivise investment in low carbon solutions beyond Europe's borders. Transport poses the most pressing challenge, with emissions from Europe's transport sector up by 32 per cent between 1990 and 2004.¹²

Over the past two years however, the EU has been taking an increasingly ambitious approach, led by Commission President Jose Manuel Barroso, UK Prime Minister Tony Blair and more recently Germany's Chancellor Angela Merkel. Their interest in climate change rose in part as a result of a political recognition that the public supports greater EU action. But it was also linked to a renewed interest in energy security, which shot up the agenda following Russia's aggressive exploitation of its position as a major supplier to the EU and other countries. These factors created a new appetite for leadership in the EU, and as a result a renewed momentum in international discussion on climate change.

The European Council spring meeting in March 2007 was a milestone in this shift. It agreed bold plans to "develop a

sustainable integrated European climate and energy policy."¹³ It endorsed an objective of a 30 per cent reduction in greenhouse gas emission by 2020 from 1990 levels if backed by other developed countries, and a 20 per cent unilateral cut in emissions by 2020 regardless of action by others.¹⁴ The Council also adopted an energy action plan that included a goal to save 20 per cent of EU energy consumption compared to projections for 2020."¹⁵

Synthesising climate change and the Lisbon agenda

But this package of commitments is only a first step, and was driven by the commitment of a small group of leaders. European commitment to action on climate change varies hugely within the EU.

One of the critical issues in determining the success of the EU's future approach will be the ability of Europe's leaders to identify and act on the inter-relationships between climate change and the primary focus of the European project - the growth of the European economy.

This has been the motivating force behind Europe's two boldest collective ventures to date - the creation of the single market and the single currency. The EU's economic

objectives are currently driven forward through the Lisbon process, introduced in response to concern over sluggish European growth rates by comparison to the US, and high unemployment in some European economies. The Lisbon agenda aims to make Europe the most dynamic and competitive economy in the world.

The Lisbon agenda has begun to make these

links over the past two years. The argument that leadership on the environment could be

“one of the critical issues in determining the success of the EU's future approach will be the ability of Europe's leaders to identify and act on the inter-relationships between climate change and the primary focus of the European project – the growth of the European economy”

a source of competitive advantage was made in the independent review chaired by Wim Kok, and taken up in the revised Lisbon strategy of 2005.¹⁶ The 2006 strategy added energy and climate as a fourth overall priority area.¹⁷

These are important first steps. The climate imperative and the Lisbon agenda connect far more closely than their individual champions have yet envisioned. The increasing focus in the Lisbon agenda on strengthening the European economy, innovation and technology are crucial components of the productive capacity that will allow Europe to deliver on its climate goals.

Some of Europe's leaders recognise the need to make these connections. The German government made this issue the theme of a recent informal meeting of EU ministers and has been pushing for a new European ecological industrial policy.¹⁸ The Dutch government pursued a similar theme in their presidency.

But we need a step change in thinking and action to achieve the goals of economic prosperity and climate security. We need an approach that provides economic benefits to all in the EU, in particular to the new member states in Eastern Europe who are not currently persuaded by the case for EU leadership on climate change.

We do not pretend that these elements can be easily integrated, or that Europe can achieve climate security without commitment from other global players. There will be some difficult short-term choices to be made. But the progress made by Europe over the past fifty years in relation to its core purposes of peace and prosperity will not be sustained unless there is an effective global response to climate change.

Where does the budget fit into this?

The Stern report ran to over 700 pages. But it contained one over-riding message: the international community needs to dramatically increase public and private investment in low carbon solutions if it is to avoid devastating costs later. The estimated cost of that investment was put at one per cent of gross domestic product (GDP).

The current EU budget review is an important opportunity to act on this analysis. The fundamental review of the budget has been established to meet the 2005 European Council commitment for “a full, wide-ranging review covering all aspects of EU spending.”¹⁹ We were therefore greatly encouraged by Commission President Jose Manuel Barroso's statement on the launch of the consultation on the budget review. He said then that:

“This is day one of a no-taboos debate about spending priorities... How can the EU focus spending on the right areas to deliver a Europe of results over the coming decades? How should Europe respond to and shape globalisation to boost growth and jobs? How do we build a low carbon economy, with secure and competitive energy supplies? This is our chance to start with a blank sheet of paper.”²⁰

We have taken him at his word.

2. how much does the EU budget matter?

Chapter one made the case for a step change in European Union (EU) action on climate change. But how does this relate to the European budget? This chapter considers the important contribution of EU public investment in the transition to a low carbon economy.

The creation of new market frameworks and regulations are the most powerful and important policy levers available to government. But a dramatic reorientation of public expenditure is an indispensable part of an effective global response, both to reduce greenhouse gas emissions (mitigation) and to adapt to unavoidable climate change.

The EU can and must set a standard in this respect. We outline three principles that flow from our analysis.

These provide the foundation for the specific spending recommendations set out in the final chapter.

Contributions from public and private investment

The transition to a stable climate will require dramatic shifts in global investment flows, both public and private. The recent United Nations Framework Convention on Climate Change (UNFCCC) report on the global investment flows needed to develop an effective and appropriate international response to climate change found that the

overall level of finance needed specifically for climate change mitigation in 2030 will be 200-210 billion dollars.²²

This figure will sound daunting. But 86 per cent of total global investment flows are currently private, with the remainder coming from governments. The carbon market is already worth around 30 billion dollars. The UNFCCC's analysis found that

by 2030 the market could provide up to 100 billion dollars of the necessary financial flows, if it were driven by strong policy

“a dramatic reorientation of public expenditure is an indispensable part of an effective global response, both to reduce greenhouse gas emissions (mitigation) and to adapt to unavoidable climate change”

Box 1: Policy framework for climate change mitigation

Sir Nicholas Stern's report outlined three essential elements in the global policy framework needed to incentivise a successful global response to climate change:²¹

Policy to reduce emissions should be based on carbon pricing, technology policy and removal of barriers to behavioural change.

1. Carbon pricing

Establishing a carbon price, through tax, trading or regulation, is an essential foundation for climate change policy.

2. Technology

Policies are required to support the development of a range of low carbon and high efficiency technologies on an urgent timescale.

3. Removal of barriers to behaviour change

The removal of barriers to behaviour change is a third essential element, one that is particularly important in encouraging the take up of opportunities for energy efficiency.

frameworks and rapid emissions reductions by developed countries. But as we know from other financial markets, the volume of trading is not evidence that trading is delivering real world outcomes – in this case reduced emissions.

Our starting point is that governments should seek, wherever possible, to establish sufficient incentives to enable the private sector to invest in effective mitigation of climate change.

But public expenditure has a critical role. The framework outlined by Nicholas Stern (see Box 1) does not explicitly consider the role of public expenditure in the transition to a global low carbon economy. But there is a public expenditure dimension to each of his three tools.

1. The development of carbon pricing has some modest implications for public expenditure, to cover the administrative cost of new schemes and taxes. But the primary connection here is the potential for both taxes and trading to provide very significant new sources of revenue.
2. The successful deployment of low carbon technology requires public expenditure, as one important way in which the (transitional in most cases) additional cost of low carbon options can be met. The Stern report called for a doubling of global spending on research and development to assist the rapid development and deployment of technology.
3. Public expenditure has traditionally played a number of roles tackling barriers to behaviour change, providing financial support to public transport and other low-carbon options and promoting behavioural change to citizens and businesses.

Public investment is not a tool that can be considered in isolation. Governments may diverge from the economically optimal mix between public expenditure and other

policy levers, for political or ideological reasons. But public investment is an important element of the second and third elements of Stern's framework.

Public investment can stimulate the private investment and personal action that is needed, either to bring new solutions to market now, or to drive the next generation of technologies and solutions in the public interest before there is sufficient certainty or price in the carbon market to do so.²³

The importance of public investment in tackling climate change will vary tremendously between individual countries according to the policy choices made at global, regional and national levels and specific national circumstances. In Africa, for instance, public investment currently accounts for 25 per cent of total investment, a figure that is understandably much higher than in other countries.

But a reorientation of public expenditure to reduce greenhouse gas emissions is an indispensable part of an effective global response. One obvious element of this that should be highlighted now is the cost of unavoidable climate change.

The costs of unavoidable climate change

Climate change is already with us. Even the most aggressive emissions reduction strategy will not enable us to avoid significant adaptation costs. The potential scale of these costs has been put variously at 10-100 billion dollars annually. We consider these figures in chapter four. But it is worth recognising now that the costs of adaptation are much harder to shift to the private sector, and that they are likely to fall most heavily on poorer countries within and beyond Europe. This has important implications for our proposed approach to climate change funding in the EU budget.

What role for EU public expenditure?

The European Union already plays an important role in action within the Union on each of the three broad areas of public policy outlined by Stern. Firstly, and most importantly, the EU emissions trading scheme sets a pan-European price for carbon and covers 46 per cent of Europe's emissions.²⁴ It is the single most important policy instrument that the world has so far established to tackle climate change, and in time should become the lynchpin of a global trading scheme.

The EU also plays a role in the other two policy areas identified by Stern. It provides financial support to the research and development of new technologies and promotes behavioural change through both regulation and information schemes such as product labelling. But as the next chapter will demonstrate, climate change is currently a marginal factor in the current EU budget. Indeed, EU funds have made significant contributions to the rising emissions of some member states.²⁵

But is the EU budget the appropriate level at which to finance some of the costs of the transition to a stable climate?

The UK government has proposed three principles for the EU budget, in a speech and pamphlet published by Ed Balls MP in May 2007.²⁶ These principles now underpin the UK government's approach to the budget review. They are summarised below.

“given the nature of the budget process it will require a very strong political commitment to make climate change a priority for the EU budget”

1. The EU should act only where there are clear additional benefits from collective efforts, compared with action solely by individual member states.
2. Where EU-level action is appropriate, it should be proportionate and flexible. Expenditure is only one of a range of policy levers.
3. We need the highest standards of financial control and independent audit-alongside continuing budget discipline

The first of these principles captures well the rationale for a strong focus on climate change at EU level. Climate change is the definitive global collective challenge. It cannot be effectively tackled without the commitment of every one of the world's major economies. The EU, as a

collective group of states that can and do work together to promote their common interests, is well placed to play an important role in financing some of the costs of the transition to a stable climate.

Spending on research and development is one example of that. The steady decline in international spending on research and development in the energy sector is a critical failure of international collective action. Despite a clear and compelling collective interest, the actions of individual member states have to date been profoundly inadequate.

Box 2: The G10's three principles for the EU budget from 2005:

1. Key budget lines which deliver public benefits must be well resourced, whatever the outcome of the debate about member states' contributions to the EU's budget.
2. Priorities and objectives should be defined with regard to integrated economic, social and environmental priorities of the European Union, and EU funds should only be allocated to policies, programmes or projects that contribute to the EU's objectives.
3. The budget should be 'greened' and resources specifically targeted towards the achievement of the EU's environmental objectives from major funding.

Box 3: Proposed principles to make climate change a priority for the EU budget:

1. The EU should focus limited funds where they make the greatest impact

The EU budget comprises less than 2.5 per cent of public expenditure in Europe.²⁷ EU public investment in climate change mitigation must be focused where it can make the most dramatic impact on regional and global emissions pathways, over the medium term.

2. The EU should address the global and regional inequities of climate change

Climate change is profoundly inequitable. Both within and beyond Europe, it is the poor that suffer most. Europe's budget must face outwards, and be built on a strong commitment to social justice.

If more motivation is needed, there is a compelling political rationale for this. The developing countries most affected by climate change are growing increasingly frustrated by the failure of developed countries to meet their promises to fund adaptation. The EU budget can and must also play a role in drawing in Eastern Europe and the emerging economies to the global collective effort.

3. The EU should set the standard for global action

The EU budget should set a standard for public expenditure at national level within and beyond the EU. It is the world's only committed and cohesive group of nation states. If we are to persuade member states and other powerful countries to make the shifts required in public expenditure. The EU must demonstrate that it can back its words with finance.

EU climate expenditure: a principled and effective approach

The rationale for the EU budget is of course the need to address the collective interests of member states. But the current budget is the result of a series of dysfunctional negotiations in which the net contribution of member states has been their primary interest, a history that we will consider briefly in the next chapter.

The Commission has proposed that the 2008-09 budget review should focus on the long term future and priorities for the EU budget. There is clearly some political interest in the Commission in the contribution that the budget could make specifically to climate change. But there are also other important environmental issues at stake.

The G10 group of European environmental groups set out three principles for the EU budget in October 2005, in the run-up to the final stage of the last round of the budget negotiations. These are set out in Box 2.

Our focus here, however, is on climate change. There is growing political support for action on climate change among Europe's leaders. But given the nature of the budget process it will require a very strong political commitment to make climate change a priority for the EU budget.

This will become possible if there is a shared recognition at the highest level of the strategic, economic and political case for action on climate change through the EU budget. We offer a set of principles (see Box 3) as the foundation for that discussion.

Conclusion

Public expenditure is just one of the policy tools available to governments. But a dramatic reorientation of public expenditure on mitigation and adaptation is an indispensable part of an effective global response. The EU budget review is an opportunity to set a standard for additional public investment within and beyond the EU. The three principles outlined in Box 3 inform the specific proposals made later in this pamphlet.

3. what is the current EU budget for?

The European Union (EU) budget in 2007 is 126.5 billion euros. That will sound pretty substantial to most readers. It is of course. But it needs to be put in context. For all the intensity of the negotiations around member state commitments and the allocation of these funds, the EU budget comprises less than 2.5 per cent of total public expenditure in Europe, and less than 1.2 per cent of the EU's GDP.²⁸

The political controversy over these funds has been fuelled by the perception that there is relatively low public value added by EU expenditure, a lack of public understanding of the EU budget, and persistent reports of fraud and mis-management. The negotiations between member states on a budget that requires unanimity are inevitably difficult. But the addition of these factors has exacerbated these difficulties, and made the process more painful for all involved.

This chapter focuses on the facts. It summarises the current distribution of these funds, and their impact on Europe's carbon dioxide emissions.

The facts

The current EU budget was agreed for the period 2007-13 at the European Council in December 2005. Figure one below outlines the distribution of EU funds in 2007, while Figure two repeats this analysis for 2013. There are some significant changes over the period, such as a 40 per cent increase on spending on research and innovation. But two areas of spending dominate both the 2007 and the 2013 budget, and account for more than 75 per cent of EU expenditure over the 2007-13 financial perspective.

The first is direct and indirect support for agriculture and rural development, through the common agricultural policy (CAP). In the current financial perspective, 2007-13, this will account for nearly 43 per cent of

the EU's budget. This spending covers both direct payments to landowners and farmers (known as pillar one) and allocations for rural development and environmental projects (pillar two). The headline figure for the current financial perspective shows a six per cent cut in this budget over 2007-13. But this masks the decision to make these cuts wholly in pillar two.

This spending has been the focus of sustained criticism from an economic welfare perspective. A recent UK government paper estimated that the CAP would leave the EU economy 100 billion euros over the 2007-13 period.²⁹ Farming accounted for less than 1.9 per cent of the EU's gross added value in 2006.³⁰ The environmental impact of this spending will be considered shortly.

The second major area of spending is structural and cohesion funds. Following EU expansion, the 2007-13 financial perspective includes 308 billion euros for structural and cohesion funds, a 21 per cent increase from 2000-06 and 35.7 per cent of the budget.³¹ This funding tackles inequalities and deprivation within the Union, and has played a significant role in the growth and development of some EU countries. But it is relatively poorly targeted. More than 60 per cent of these funds go to the richer member states in western Europe.³²

Overall effectiveness of this spending

In June 2005, Tony Blair, the former British prime minister primarily behind the current budget review, described the EU's budget as 'not fit for purpose' following a row over the UK's EU rebate.³³ Many others have expressed similar views. But the overall effectiveness of EU expenditure is hard to assess.

This is in part due to the non-transparent nature of the EU budget. The EU budget

Figure 1: EU budget for 2007

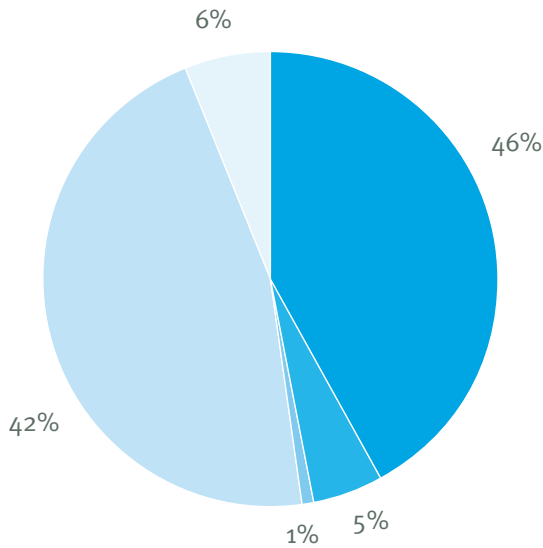
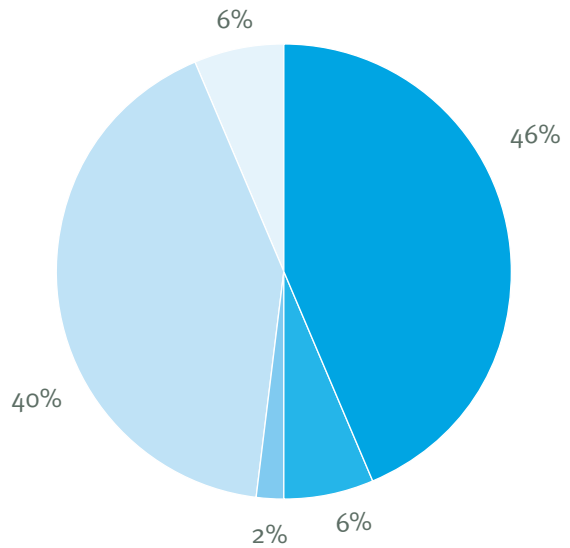


Figure 2: EU budget for 2013



	Sustainable growth: Investing in competitiveness, fostering cohesion across regions.
	A global player: Promoting sustainable development, peace and security around the world.
	Citizenship, freedom, security and justice: Protecting health and consumer rights; encouraging public dialogue. Making Europe a safer place to live.
	Natural resources: Fostering rural development and protecting the environment. Reforming Europe's agriculture and ensuring high quality.
	Other expenditure including administration.

exists in two spheres. Broad budget allocations are agreed to cover spending programmes, but do not represent money committed and spent. The EU has historically under-spent in many areas, and EU budget reporting focuses on demonstrating progress in disbursement rather than scrutinising impact.³⁴

The European Parliament has responsibility for the discharge of the EU budget and has sought to scrutinise the impact of EU spending. In some areas national governments and others have also done so. EU development spending, for instance, has been the subject of much criticism from some member states and independent observers, for its poor targeting and the lack of transparency and reporting.³⁵ EU aid has

been strongly influenced by political considerations, and poorly targeted at the poorest countries. Only 46 per cent of Commission development assistance was allocated to the poorest countries in 2005.³⁶

Fraud and mismanagement also continue to blight the EU budget, despite the emphasis given to this following the fraud scandal of 1999, which led to the mass resignation of the Commission and the creation of the Independent European Anti-Fraud Office (OLAF). The EU's chief accountant publicly declared that the Commission's own accounts were faulty and open to fraud and abuse in 2002, and in 2006 the estimated financial impact of suspected fraud was over 320 million euros.³⁷

Climate change impacts of the current EU budget

The EU budget has not been the subject of any overall assessment for its impact on greenhouse gas emissions. A comprehensive analysis of this kind would be a valuable input to the current budget review. Three elements of the EU budget are likely to be particularly significant; the CAP, cohesion funding, and research and development. Our review of the evidence suggests that the overall impact of EU funds may well be to increase rather than reduce EU emissions.

In relation to agricultural spending, our starting point is a strong commitment to the intrinsic and the instrumental importance of farming, land use policy and the natural environment. But current EU spending cannot be justified on environmental and public interest grounds, either from a climate change or a broader environmental perspective.

The CAP has played an important role in incentivising environmentally damaging farming practices, and has had negative impacts on water quality, biodiversity and indeed on greenhouse gas emissions. The Commission estimates that farming is responsible for nine per cent of EU greenhouse gas emissions.³⁸ Unsustainable intensive agricultural practices are widely seen as a major drive for these emissions.³⁹

The 2005 budget deal cut pillar 2 spending on rural and environmental projects, and did nothing to improve the overall picture. It also failed to address the potential for agriculture and rural development to contribute to action on climate change through either mitigation (through changing farm practices and biofuels) or adaptation. Farming and land use have an important role to play in both respects.

The second is the environmental impact of structural funds and cohesion policy. Responsibility for this is shared. The Commission proposes the criteria for these

funds and member states negotiate and agree them, and bring forward spending proposals. The Commission have claimed that 30 per cent of cohesion funds in 2007-13 will be beneficial to the environment, citing the direct benefits of spending on issues such as water and waste, and the indirect benefits of spending on energy, transport, clean technologies and eco-innovation.⁴⁰

The criteria for these funds are remarkably weak from an environmental perspective.⁴¹ But they do permit member states to put forward environmental spending proposals in a range of areas including energy efficiency, renewable energy and other low-carbon investments, waste and water

infrastructure,⁴² integrated strategies for clean transport and environmental investment to mitigate the effects of climate change.⁴³

But the combination of weak criteria and a lack of attention to these issues at member state level has been

very damaging from a climate change perspective. In transport for instance, the trans-European networks have contributed to rising carbon dioxide emissions and, despite their stated purpose, have been used primarily by local and regional traffic.

This looks set to continue. The plans for energy infrastructure submitted by the ten member states in central and eastern Europe for 2007-13 are highly carbon intensive.⁴⁴ Energy efficiency and renewable energy accounts for just two per cent of proposed structural fund investment, and transport policy is overwhelmingly focused on roads and motorways without any reference in member states plans to the climate implications. Unless there is a significant shift in these plans, EU funding over the next six years will lock many member states in to high carbon energy and transport infrastructure. The German government have highlighted this, and called for change in the budget review.⁴⁵

“our review of the evidence suggests that the overall impact of EU funds may well be to increase rather than reduce EU emissions”

The third and final issue is the impact of EU spending on research and development. This is a potentially significant area of EU spending. The sums involved have long been far smaller than CAP or structural and cohesion funds, but EU research and development spending is rising and beginning to focus more strongly on environmental concerns.

Responsibility for the current budget

The Commission naturally draws much of the fire directed at the budget. But the member states bear ultimate responsibility. The EU first introduced multi-annual budget planning - known as financial perspectives - in 1988. It created a means by which the EU could budget and plan over a longer-term period. But the by-product of this has been to further entrench the tendency to stasis within the budget process. The EU budget has not fundamentally changed since that time.

Member states typically approach budget negotiations from the point of view of national self-interest and with an eye to headlines at home. The result has been budget negotiations centred on political posturing and vested interests rather than a clear analysis of the resource allocations that would meet the political priorities of the EU. As Iain Begg and Friedrich Heinemann, from the Centre for European Reform, point out:

“...individually, EU countries mainly care about their net contributions to the budget... governments manipulate EU policies to make sure that they receive their ‘fair’ share of EU money. Or if this does not work, they add national rebates. As a result, the EU regularly ends up with budgets that are inefficient, badly targeted, ludicrously complicated and hardly worth the countless hours of political fighting that precede them.”⁴⁶

The member states also bear considerable responsibility for the way in which EU funds are spent at national level. There is a

high degree of devolution in the management of much EU expenditure, notably structural and cohesion funds. Over 80 per cent of EU funds are managed by national governments or local authorities.

A process that delivers?

The history of budget reform efforts is painfully disappointing. History has an unfortunate habit of repeating itself. But the current review is a new device. The Commission’s paper provides an opportunity for member states to agree new priorities for funding that will guide the long-term direction of the EU budget. It could for the first time deliver a budget that reflects the EU’s political direction.⁴⁷

Given the ultimate power and responsibility for the outcome lies with member states, there is a strong possibility that the mid-term review will again disappoint. But the review is still in its early stages. It will need to be designed and implemented creatively if it is to acquire the political momentum needed for significant reform.

The introduction of a new democratic element to the EU budgetary process could provide this. There is a powerful rationale for involving EU citizens in the development of a long-term budgetary strategy. Tom Burke and Nick Mabey, from E3G, have set out one way that this could be done.

“This citizen input should begin during 2007 with a series of pan-European deliberative activities. These should identify citizen priorities for EU spending, providing policy makers with an initial indication of levels of public support for different EU actions. The European Commission should incorporate these views into its review of the EU budget and seek further deliberative input on specific concerns.

Then, on the day of the elections to the European Parliament in June 2009, all voters should be enabled to contribute their perspective on the

budget review proposals by ranking their preference for EU spending. This should be for issues which have direct financial impacts for their region and member state, and also for those policies related to the EU's role in the world. Results should be reported by electoral region and member states as well as a European average.

MEPs elected on that day should then take responsibility for engaging their constituents with the subsequent discussions in the EU institutions as to the future shape of the EU budget. Member state officials and political leaders will also have to justify their negotiating positions in the light of these citizen preferences. The European parliament should act on behalf of citizens to ensure that Europe's budget review reflects their wishes and provides added value to European cooperation; serving in this role as facilitators between institutions and citizens in all future EU budget exercises."⁴⁸

Conclusion

The EU budget requires a radical rethink. The agreement reached in 2005 on the 2007-13 budget was a short-term fix that did not address the disconnect between Europe's priorities and EU spending. The budget must play its full part in delivering the main economic, environmental, security and social objectives of the EU.

From a climate change perspective, a fundamental reappraisal is certainly justified. Our review of the evidence suggests that the EU budget may well increase rather than reduce EU greenhouse gas emissions. The final chapter of this pamphlet sets our proposals for future EU public investment priorities.

4. proposals for a 21st century budget

The Commission launched the formal budget review process with a consultation paper on 12 September 2007.⁴⁹ The process proposed by the Commission is an important political opportunity outside the constraints of normal budget negotiations. It will take a longer term horizon than these traditionally allow. It is an opportunity to set clear political priorities that reshape the budget over the next ten to fifteen years.

We have made the case for climate security to be the primary focus of the European Union (EU) budget review. The principles outlined in chapter two underpin our proposals for future spending. We have focused on public investments that will make the greatest impact in Europe and beyond, address the global and regional inequities of climate change and set the standard for global action.

We believe the EU budget should focus on five priority areas, at a total cost of around 32-38 billion euros. Each of our proposals is necessarily broad in outline, and will need further work. But we urge all those contributing to this debate to offer alternative solutions that are commensurate with the scale of the challenge and which leverage the public and private investment in a low carbon economy that we so urgently need.

How Europe will finance this

The expenditure proposed in this pamphlet is a dramatic increase in current EU spending on climate change. But it is a very modest figure by comparison to the scale of the costs associated with failure. A major increase in funding at member state level will also be needed. There is no credible pathway to a stable climate without this kind of expenditure. Europe's leaders can choose between two means of financing a climate change package on this scale.

First, much of this funding could be financed by a radical reform of the current budget, primarily from changes to the Common Agricultural Policy (CAP) and cohesion funds that dominate the current EU budget. Structural and cohesion funds are the appropriate means to fund many of the energy, transport and other infrastructure costs proposed here. A radical reform of the CAP is justified on economic, social and environmental grounds, and should yield significant savings.

“the spending proposed here could be financed even without reform of the current budget”

But the spending proposed here could be financed even without reform of the current budget. We discount the possibility of an EU-wide carbon tax, which seems unlikely to overcome long-standing political objections. But the EU could finance this by

raising and distributing the auctioning revenue from the third phase of the EU emissions trading scheme (ETS) from 2013 onwards.

If phase three of the scheme is to be effective, the auctioning of allowances from the power sector is justified on economic and environmental grounds. It will prevent the windfall profits associated with the first two phases of the ETS and has significant support among member states. A recent Deutsche Bank study estimated that this would raise approximately 28 billion euros, if emissions limits were set in line with EU targets.⁵⁰ A total of 61 billion euros could be raised from a 100 per cent auction of the allowances.

The decisions on auctioning levels and the use of these revenues have to date been made at member state level. But there is a political and economic case for a common European approach to both, and a commitment by the EU to use auctioning revenues exclusively to tackle climate change. We foresee some member state

resistance to this. But it would improve the effectiveness of the trading scheme, and improve the potential effectiveness of future budget processes by providing the Commission with a major funding stream that would help to diminish the current preoccupation with member state contributions.

The choice between budget reform and use of auctioning revenues is a political one. But one of these routes must be taken to deliver the increased funding for climate change that is needed.

Low carbon infrastructure

As we describe in chapter two, EU cohesion funding programmes have played a significant role in locking in high carbon patterns of energy generation and travel. This must be addressed rapidly to avoid further lock-in that will be expensive to unravel. A new approach could play a crucial role in setting the new member states of central and eastern Europe on a low carbon pathway.

The Commission has acknowledged the need for change. Their most recent report on economic and social cohesion includes recognition of the need to address the strong connections between climate change and cohesion funds.⁵¹ The precise issues will vary between funds of course. But the general mechanism for this should be a simple one.

For all EU funds, member states should be required to demonstrate how their proposals will contribute to their national emissions targets. The Commission should have the power to reject all programmes not consistent with those targets. This would drive a radical shift in the EU's infrastructure investments, in particular in relation in energy and transport.

“ member states should be required to demonstrate how their proposals will contribute to their national emissions targets”

Transport

This approach would shift spending away from new roads and aviation and into three areas: the creation of new low-carbon infrastructure, innovations that reduce the carbon intensity of existing infrastructure, and solutions that reduce the need to travel.

The primary focus of new infrastructure spending should be to accelerate the creation of a high-speed rail network in Europe for both freight and personal travel, with rail feeders to the hubs of that network. This would reduce the need for intra EU aviation. These funds could also finance new bus and rapid urban transit systems in Europe's cities.

To improve the carbon intensity of existing infrastructure, it could fund road pricing and other demand management systems, and a car-sharing network that enables people moving within Europe to pick up cars through Europe using their domestic car-sharing network. The prospect of EU funding to achieve a breakthrough in clean technologies in the car industry is considered later in this chapter.

To reduce the need to travel, it could help finance alternatives to travel consistent with the vision of a European knowledge economy, such as the roll-out of broadband and other technological solutions that reduce the need to travel. These would improve Europe's competitiveness, and help to de-link economic growth from carbon emissions.

Energy

In energy, a dramatic shift in investment is required. Many of Europe's fossil fuel power stations are coming to the end of their natural lives and investment in new infrastructure is now needed. The EU's commitments should make renewable energy a central feature of that investment. The European Council recently set a binding target of a 20 per cent share of renewable energies in overall EU energy consumption

by 2020.⁵² About 6.4 per cent of the EU's energy will come from renewable sources in 2007 (including hydro and waste incineration).⁵³

The European emissions trading scheme will not provide a sufficiently strong incentive to deliver all of this, given the current costs of most renewable energy options.⁵⁴ Other policy instruments will help to close this funding gap. But to achieve this ambitious goal, we also need to fund a new EU wide energy grid to maximise EU wide renewable energy capacity (in a liberalised market) with a mix of both centralised and decentralised energy provision.

These proposals are a dramatic shift in direction. Given the difficulty of rapid reform of existing funds, we believe that a new low-carbon infrastructure fund is needed. We estimate the need to dedicate 13 to 16 billion euros per annum to this fund. Existing funds would need to be re-directed to reflect this, and should be subject to the proposed climate proofing mechanism.

“we believe that a new low-carbon infrastructure fund is needed”

Carbon capture and storage

Energy efficiency and renewable energy have rightly been the top priorities of the Commission and EU. Ambitious goals were set for both by the 2007 Spring Council.⁵⁵ But we see carbon capture and storage as another high priority at European level, for two reasons.

First, energy efficiency and renewable energy cannot deliver in isolation. In the medium term, some fossil fuel energy will still be needed to meet EU energy needs. Second, coal is a globally important energy source. China in particular, but also India and other countries, has vast coal reserves that they will exploit. We will lose the battle to stabilise global greenhouse gas emissions if we do not rapidly develop the means to enable these countries to do so with near-zero carbon solutions.

The EU has recognised this. The commitment to working with China to

develop a near-zero emissions coal plant was the first practical evidence of this. But the EU has now gone further, with commitments to develop 10-12 demonstration projects for carbon capture and storage by 2015 and to require all new fossil fuel plant in the EU to use carbon capture and storage technology by 2020.⁵⁶ This roll-out is ambitious but achievable, and a critical commitment for Europe and the world.

The EU is currently consulting on ways in which to deliver this target, including options to meet the incremental cost of the demonstration plants.⁵⁷ The lack of real world experience of the capital or operational costs at this scale and the mix of technologies involved makes it impossible to confidently predict these costs. The Commission consultation noted current costs of 70 euros per tonne, and that most models estimate a range of 20-30 euros per tonne in 2020. A recent study by Deutsche Bank supported industry estimates that the incremental cost is likely to be in the region of 35 euros per tonne of carbon. A roll-out of 10-12 new plants (10-12 gigawatts of energy) would result in emissions savings of around 100 million tonnes of carbon.⁵⁸

In the longer term the carbon price could and should fill this financing gap for the generation of plants built after 2015. The future of the trading scheme will be considered at the December 2007 European Council. But the uncertainty surrounding future emissions prices cannot be overcome in the short-term, and will not provide the certainty to enable rapid investment decisions in the demonstration plants.

Some member states (Germany, UK) may be willing to find ways to meet these costs. But other countries in eastern Europe with high coal reserves and a vital stake in the future of clean coal technology in Europe could be unable to do so and frozen out. A guarantee of feed-in subsidies or an agreed carbon price could meet this gap, but would need EU funding to draw in these states.

Given the critical importance of this investment, we believe that EU funding of 3-5 billion euros per annum is justified to secure the rapid roll-out of the pilot plants and kick start the global discovery of the viability and cost of carbon capture and storage technologies.

Research, development and deployment

The Stern report called for a doubling of global spending on research and development. While there are substantial technologies that will be deployed now with the correct policy framework, a major increase in spending is needed to support breakthrough technologies, as we argued in chapter two. We estimate the need to dedicate between 7.5 and 8.5 billion euros per annum for this purpose.

The added value from this investment depends on the successful transition to market of these technologies. EU funds should be used to lever additional national public and private funding to fast track low carbon technologies, and linked to policy reform that creates markets for new technologies. The Carbon Trust in the UK is a model for this. Publicly funded but privately led, it has played a venture capital and technology incubation role, helping to bring new technologies successfully to the market.

This investment could jump-start a global race to the top in low carbon research and development and provide immense economic opportunities for Europe from global breakthroughs in these technologies, as recognised in the revised 2005 Lisbon strategy. In the transport sector for instance, Europe would derive substantial global competitive advantage if it could wrestle the advantage from Japanese companies in the development of more efficient, hybrid and alternative fuel engines.

There are opportunities to move rapidly towards this. Business Europe has argued that the proposed European Technology

Institute “could play a key role in that area by devoting itself solely to developing green technology.”⁵⁹ But the Institute will have a modest budget from the EU of 300 million euros for 2008-13. Climate change funding could be increased much more dramatically within the current budget period, by exploiting the agreed 40 per cent increase in EU spending on research and development in 2007-13.

This investment needs to be focused on agreed research and development objectives, informed by an assessment of the scale of economic and carbon saving potential. These could include:

- second generation technologies in renewable energy such as wave, tidal and solar;
- alternative transport fuels for surface transport and aviation;
- energy efficiency in products, buildings, transport and generation and distribution systems;
- clean coal and carbon capture and storage; and
- adaptive technologies for climate change.

Investing in global success

The critical relationship in the global dialogue on climate change is the one between Europe and the emerging economies led by China and India. There are many ties of interdependency between these economies. One abiding common interest is that neither can achieve climate security without the co-operation of the other.

Europe therefore has a compelling interest in providing support and investment to accelerate the efforts being made by these countries to achieve a rapid shift to a low carbon economy. This relationship should have several dimensions. It will involve aligning technical standards to assist market access and technical co-operation in areas such as carbon capture and storage, energy efficiency and renewable energy.

But it should also involve sharing risks. One way of doing this would be for the EU to

set up a sovereign investment fund to invest in the development of low carbon infrastructure in countries such as China and India. We propose a fund of about one billion euros a year, managed by the private sector, to invest in infrastructure projects. This would enable the EU to take a stake in the roll-out of their low carbon economies, as the EU has done closer to home through the European Investment Bank. It would give Europe a real stake in the success of these countries, and cement the co-operation that will be needed in many other areas.

Taking responsibility, investing in adaptation

The need to address the global and regional inequities of climate change was one of the three principles for the EU budget outlined in chapter two. There is both a principled and a tactical case for this. In principle, the EU is a major contributor to the climate change that will affect the poorest countries. From a tactical perspective, adaptation spending will provide developing countries with evidence of EU commitment, and as such is a pre-condition for success in global negotiations.

These arguments also apply within the EU, where the poorer countries of the south will face the most significant impacts and support for adaptation action would sit naturally within future structural and cohesion funds.

We therefore support, in principle, a collective European approach to expenditure on adaptation. However we offer the critical caveat that the funds must be well managed, and note the widespread criticism of EU development expenditure mentioned in chapter three.

The Commission has recently taken the initiative on adaptation, with the announcement of the Global Climate Change Alliance.⁶⁰ This aims to establish a partnership between Europe and developing countries on both adaptation and mitigation. There is an initial budget of 50 million euros in 2008-10, but the Commission is seeking member state

contributions to a new fund for this purpose.

But what are the potential long term costs of adaptation? The uncertainties involved make valuation extremely difficult. Work to date has produced a wide range of preliminary assessments.

The World Bank has estimated the global cost of adaptation for existing investments in the developing world at 9-41 billion dollars a year.⁶¹ A recent Oxfam report considered the potential cost for new and existing investment, and used a review of national adaptations plans published to-date. It estimated an annual cost of at least 50 billion dollars.⁶² We see this as a prudent planning assumption, though it will rise significantly unless there is rapid action to cut global emissions.

So who should pay? Oxfam's Adaptation Financing Index used four criteria, including historic responsibility and the capability of countries to contribute, to assess how these funds should be raised. This would mean the EU contributing around 30 per cent of the costs of adaptation for the developing world, an annual contribution of 15 billion dollars in addition to current development funding.

Five member states (Germany, the UK, Italy, France and Spain) account for three quarters of the EU's proposed share. They are among the larger contributors to both EU emissions and the EU budget. We believe that the EU budget is both an appropriate and practical source of 50 per cent of the EU's contribution to adaptation.

We propose an annual budget allocation at EU level of 7.5 billion euros per year to support adaptation in the poorest countries. This excludes expenditure on adaptation within Europe. The Commission's green paper on adaptation within the EU highlights in particular the potential impact on energy and transport infrastructure and on agriculture.⁶³ EU spending on this would be a natural element of future cohesion fund spending. But no reliable assessments of the potential costs have yet been made.

5. conclusion

In March 2007, on the 50th anniversary of the Treaty of Rome, Europe's heads of state set out their view of the values, principles and direction that Europe should take over the next 50 years in the Berlin declaration. It included the following:

“We are facing major challenges which do not stop at national borders. The European Union is our response to these challenges. Only together can we continue to preserve our ideal of European society in future for the good of all European Union citizens... we intend jointly to lead the way in energy policy and climate protection and make our contribution to averting the global threat of climate change.”⁶⁴

An effective response to climate change will require Europe's leaders to deploy resources, articulate shared values, and drive public engagement within and beyond the nation state in defence of the most fundamental public good - a stable climate.

There is a political opportunity here. At a time when many in Europe have become disillusioned with European institutions, there is strong public support for European leadership on climate change. The majority of EU citizens believe energy-related issues are best tackled at EU level.⁶⁵ A recent report on European citizen perspectives found that many believe that the EU should “become a world leader” in “the fight against climate change”.⁶⁶

Europe's budget is an indispensable part of that response. The immediate starting point for some member states in the review, even now, appears to be the absolute size of the EU budget. Ours is not. The proposals outlined here involve total funding of about 32-38 billion euros. But we have set out how our proposals could be financed either as part of a major budget reform, or through the use of the revenues from the auctioning of emissions allowances.

This investment will set Europe on a course for deep long term emissions cuts, create global economic advantage for Europe, meet Europe's responsibility to the poorest countries most affected by climate change and above all help put the world on a path to climate security.

When should this funding be established? Early investment will pay the greatest dividends. The Union can and should achieve major increases in cohesion funding, adaptation and research and development prior to 2013. The full transition to investment on this scale should take place rapidly after that.

If Europe's leaders fail to make that shift, the prospects for peace and security in Europe and beyond will be radically diminished. Europe's leaders have now recognised the urgency and scale of the threat of climate change. They must now offer solutions commensurate with that analysis.

references

- 1 The Council of the European Union, 2007, Brussels European Council 8/9 March summit: presidency conclusions document 7224/0.
- 2 Commission of the European Communities, 2005, *Working together for growth and jobs: a new start to the Lisbon strategy*, Communication to the Spring European Council.
- 3 Tom Burke and Nick Mabey, 2006, *Europe in the world: political choices for security and prosperity*, E3G.
- 4 Commission of the European Communities, 2005, *Plan D for democracy, dialogue and debate*, Communication to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions.
http://ec.europa.eu/commission_barroso/wallstrom/pdf/communication_planD_en.pdf
- 5 Eurobarometer, June 2007 http://ec.europa.eu/public-opinion/index_en.htm
- 6 Tom Burke and Nick Mabey, N, 2006, *Europe in the world: political choices for security and prosperity*, E3G.
- 7 Intergovernmental Panel on Climate Change, 2007, *Fourth assessment report, Climate Change Working Group I: the physical basis*.
- 8 Nicholas Stern, 2006, *The Stern review on the economics of climate change*, HM Treasury.
- 9 Nicholas Stern, 2006, *The Stern review on the economics of climate change*, HM Treasury.
- 10 See presentation by Martin Parry, Co-Chair, IPCC, Working Group 2, 11 September 2005 to an informal meeting of EU agriculture and environment ministers
www.defra.gov.uk/farm/environment/climate-change/eu/2-%20parry.pdf
- 11 European Environment Agency, 2006, *EEA environmental statement 2006, European communities*
- 12 European Federation for Environment and Transport, 2006, *Greenhouse gas emissions from transport in the EU25*.
- 13 The Council of the European Union, 2007, Brussels European Council 8/9 March Summit: presidency conclusions document 7224/0, page 7.
- 14 Ibid. paragraph 31.
- 15 Ibid, paragraph 6.
- 16 High Level Group chaired by Wim Kok, 2004, European Commission, *Facing the challenge: the Lisbon strategy for growth and employment*, European Communities. Also Commission of the European Communities, 2005, *Working together for growth and jobs: a new start to the Lisbon strategy*, Communication to the Spring European Council.
- 17 Communication from the Commission to the Spring European Council, 12 December 2006, *Implementing the renewed Lisbon*.
- 18 Federal Ministry for the Environment, 2007, *Nature Conservation and Nuclear Safety, Environment – innovation – employment: elements of a European ecological industrial policy*, Working paper to the informal meeting of environment ministers in Essen.

- 19 Council of the European Union, 2005, Document 15915/05, Brussels
- 20 European Commission, 2007, *Reforming the budget, changing Europe*, Communication from the Commission.
- 21 Nicholas Stern, 2006, *The Stern review on the economics of climate change*, HM Treasury.
- 22 UNFCCC, 2007, *Investment and financial flows relevant to the development of an effective and appropriate international response to climate change*.
- 23 Ted Nordhaus and Michael Shellenberger, September 2007, *A manifesto for a new environmentalism*.
- 24 WWF, June 2006, *Carbon countdown: emissions trading to combat climate change*.
- 25 Martin Konecny, 2007, *EU cash in climate clash*, Friends of the Earth and Bankwatch.
- 26 Ed Balls, 2007, *Britain and Europe: a city minister's perspective*, Centre for European Reform.
- 27 European Commission, 2007, *Reforming the budget, changing Europe*, Communication from the Commission, p4.
- 28 Ibid.
- 29 HM Treasury and Defra, 2005, *A vision for the common agricultural policy*.
- 30 Eurostat, figures for the agriculture, hunting and fishing sectors to total EU 27 gross value added in 2006
- 31 A new Financial Framework for the enlarged Union (2007-2013)
http://ec.europa.eu/budget/prior_future/fin_framework_en.htm Also *The New EU Cohesion Policy 2007 – 2013*, May 2007, EurActive.
- 32 Ed Balls, 2007, *Britain and Europe: a city minister's perspective*, Centre for European Reform, p37.
- 33 See http://news.bbc.co.uk/1/hi/uk_politics/4110562.stm
- 34 European Commission, September 2007, *EU budget 2006 financial report*.
- 35 Concord, 2006, *EU aid: genuine leadership of misleading figures? An independent analysis of European governments' aid levels*.
- 36 Concord, 2007, *Hold the applause! EU governments risk breaking aid promises*.
- 37 European Commission, 2006, *Protection of the financial interests of the communities - Fight against fraud - Annual report 2006*
- 38 Fischer Boel, 2007, *Farming's role in mitigating climate change*.
- 39 Birdlife International, 2007 (forthcoming), *New challenges, new CAP*.
- 40 DG Regional Policy presentation to EU network of environmental authorities, 30 May 2007.
- 41 DG Environment, 2007, *Cohesion policy regulations and the Community strategic guidelines: relevant provisions for the environment*.
- 42 Community Strategic Guidelines for Cohesion 2007 - 2013 (SGC 2007-013)

- 43 European Regional Development Fund Regulation, in particular convergence objective (Article 4)
- 44 Martin Konecny, 2007, *EU cash in climate clash*, Friends of the Earth and Bankwatch.
- 45 Federal Ministry for the Environment, 2007, *Nature Conservation and Nuclear Safety, Environment - Innovation - Employment: elements of a European ecological industrial policy*, Working paper to the Informal Meeting of Environment Ministers in Essen.
- 46 Iain Begg and Friedrich Heinemann, 2006, *New budget, old dilemmas*, Centre for European Reform.
- 47 Dr. Dalia Grybauskaite presentations, Nueva Economía Fórum Madrid, February 2007, Giovanni Agnelli Foundation Torino, May 2007 and introductory remarks at the Bruegel Workshop, June 2007
- 48 Tom Burke and Nick Mabey, 2006, *Europe in the world: political choices for security and prosperity*, E3G.
- 49 European Commission, 2007, *Reforming the budget, changing Europe*, Communication from the Commission.
- 50 Mark Lewis Deutsche Bank, 23 July 2007. This study found that the 2020 targets adopted by the EU necessitate a phase 3 cap of 330 million tonnes per year over the 2013-2020 period, which would lead to a carbon price of around 35 euros. *Environmental Carbon Emissions*.
- 51 European Commission, May 2007, *Growing, regions growing Europe: 4th report on economic and social cohesion*.
- 52 Brussels European Council 8/9 March 2007 *Presidency conclusions*, document 7224/07, Annex 1, page 21, part 7.
- 53 Euractive.com briefing on renewable energy policy: www.euractiv.com/en/energy/eu-renewable-energy-policy/article-117536
- 54 Mark Lewis Deutsche Bank, 23 July 2007, *Environmental Carbon Emissions*.
- 55 The Council of the European Union, 2007, *Brussels European Council 8/9 March summit: presidency conclusions document 7224/0*, Brussels.
- 56 Ibid.
- 57 Communication from the Commission to the Council and the Parliament, *Sustainable power generation from fossil fuels: aiming for near-zero emissions from coal after 2020*, 10 January 2007. Also *Incentivising CO2 capture and storage in the European Union*, 2007, www.ecn.nl/fileadmin/ecn/units/bs/Transitietechnologieen/Task_3_Incentivising_CO2_capture_and_storage_in_the_European_Union.pdf
- 58 Mark Lewis Deutsche Bank, 23 July 2007, *Environmental Carbon Emissions*.
- 59 Ernest-Antoine Seilliere, President of Business Europe, quoted in FT Business publication *European Union: the next 50 years*, March 2007.
- 60 Communication from the Commission to the Council and the Parliament, 18 September 2007, *Building a global climate change alliance between the European Union and poor developing countries most vulnerable to climate change*.

- 61 Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries, April 2006, *Clean Energy And Development: Towards An Investment Framework*, p9.
- 62 Oxfam, 2007, *Adapting to climate change: what's needed in poor countries, and who should pay*.
- 63 European Commission, June 2007, Commission green paper, *Adapting to climate change in Europe: options for EU action*.
- 64 Declaration on the occasion of the 50th anniversary of the signature of the Treaties of Rome, 25 March 2007.
- 65 Eurobarometer, 5 March 2007, *Europeans support greater EU action on energy and climate change*.
- 66 European Citizens Consultation, 10 May 2007, *European citizens' perspectives on the future of Europe*.



natur**ally**responsible[®]

Printed by ☼ **Seacourt** to the most stringent environmental systems using **Waterless Offset** (0% water and 0% Isopropyl alcohol or harmful substitutes), 100% renewable energy and vegetable oil based inks on paper with at least 75% recycled content. ☼ **Seacourt** is registered to EMAS and ISO 14001, is a CarbonNeutral[®] company and FSC accredited.

The post war European project has helped bring peace and prosperity to increasing numbers of European citizens. But climate change threatens the future peace and prosperity of Europe and the world. Europe has a critical leadership role in the global response to this threat. Europe's leaders have begun to grasp this challenge. But a step change in commitment is needed.

Future European Union expenditure is an essential element of Europe's response. Additional public investment is essential to tackling climate change within Europe, and to securing the commitment of the emerging economies and the poorest countries for a global effort on the scale needed. The EU budget review is a critical opportunity to re-orient EU public investment to tackle climate change.

This pamphlet sets out the essential elements of future spending at EU level, with a total annual cost of 32-38 billion euros. With sufficient political will, this could largely be secured through reform of cohesion funds and spending on agricultural and rural development. But comparable revenues will be raised by the auctioning of allowances in the next phase of the EU emissions trading scheme, from 2013 onwards. Europe's leaders have political choices to make in relation to both their spending on climate change and the sources of these funds. These choices must be grasped. A radical rethink of EU public investment is an essential part of Europe's global leadership role on climate change.