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EU Cohesion Policy and energy – where do we go from here?

The EU needs money. The ongoing debate about ensuring its proper budgetary resources (through some kind of Europe-wide taxation) is as controversial as it is crucial for the future of the European project.

Skeptics might do what they do the best – be skeptical – and say that the EU already spends too much of taxpayers' money on its own functioning, that in times of economic troubles and budgetary hurdles Member States should rather think about reducing their respective contributions to the EU budgets, that the EU money should, in the end, only go to those countries and regions that need it the most (i.e. new, poorer Member States). But those connoisseurs of EU affairs miss the essential point: the EU needs money to finance, among other, basic infrastructure that will enable all Europeans to have access to good quality public services and fund measures that will effectively tackle the challenge of climate change.

Energy has its needs

In recent weeks and months the EU has been particularly busy on its "energy" front: on 10 November 2010, the European Commission has adopted the Communication "Energy 2020 - A strategy for competitive, sustainable and secure energy"[2], on 17 November 2010 the Communication "Energy infrastructure priorities for 2020 and beyond - A Blueprint for an integrated European energy network"[3], on 26 January 2011 the Communication "A resource-efficient Europe – Flagship initiative under the Europe 2020 Strategy". Not to mention, fresh from the oven "Roadmap for moving to a competitive low-carbon economy in 2050"[4] and "Energy Efficiency Plan 2011"[5] both published on 8 March 2011. The abovementioned documents set the EU energy priorities for the decades to come, and define actions to be taken in order to tackle challenges of saving energy, achieving a market with competitive prizes and secure supplies, boosting technological leadership, and effectively negotiate with international partners.

On 4 February 2011, European Union leaders held their first ever energy summit in Brussels. Heads of state and government adopted a final communication to confirm that safe, sustainable and affordable energy, contributes to Europe's competitiveness, and is a priority for the EU. In coming months, some more communications, plans and legislative initiatives in the field of energy will be taken[6].

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[1] The author alone is responsible for the contents of this contribution
[2] http://ec.europa.eu/energy/strategies/2010/2020_en.htm
[3] http://ec.europa.eu/energy/infrastructure/strategy/2020_en.htm
[4] http://ec.europa.eu/clima/policies/roadmap/index_en.htm
[5] http://ec.europa.eu/energy/efficiency/action_plan/action_plan_en.htm
[6] White Paper on the future of transport; Revision of the Energy Taxation Directive; Roadmap for a resource-efficient Europe; Energy infrastructure package; Energy Roadmap 2050; Smart grids; Revision of the legislation on monitoring and reporting of greenhouse gas emission

Throughout all these documents, one message is a headline grabber**: the EU total investment needs in the electricity and gas sector between 2010 and 2020 can be estimated at about €1 trillion.** Additional power generation will need some €500 billion, construction and upgrade of transmission and distribution networks will have to attract €600 billion.
Renewables sector alone will require between €310 and €370 billion of investment that is key to guarantee the EU reaches its 3x20 objectives[7], and to ensure reliable and affordable energy supplies to all EU citizens.

Who will pay for it? It would be handy if the private sector could simply take care of it. Such an option would definitely reassure hard-core liberals as the market would finally solve all the vital problems that the EU is facing as regards its energy dependence on external suppliers.
Unfortunately, things are a bit more complicated and European decision-makers seem to be getting more and more aware that market will need some little extra help from the EU to provide incentives for both large and small scale investment in energy infrastructure.

Cohesion policy steps in

If one looks at the current EU financing schemes, the EU energy policy provides meager financial direct support to energy projects. Trans-European energy networks initiative defines a list of projects that will contribute towards "the interconnection, interoperability and development of trans-European networks for transporting electricity and gas". Projects of common interest, priority projects and projects of European interest are eligible for the EU assistance – some EUR 20 million per year, mainly intended for financing feasibility studies.

The European Energy Programme for Recovery (EERP)[8] with a budget of almost €4 billion allocates them to energy projects such as gas and electricity interconnections, offshore wind energy generation and CO2 capture and storage. Yet the scheme is rather an exception than a rule. Furthermore, the decision to channel €1 billion towards carbon capture and storage projects might be questionable, given how little this technology is developed and how costly its deployment will be in the future[9].

It turns out that at present the main instrument through which the EU injects money into energy infrastructure is via its regional policy. This is quite a novelty: if some investments in energy projects were possible during 2000-2006 programming period, only since 2007 Energy became an explicit objective followed by Operational Programmes[10]. In March 2009, the European Commission announced it would invest an unprecedented €105 billion in green projects under the EU's Cohesion Policy. The 'green' funding takes up more than 30% of the regional policy budget for 2007-2013, almost three times as much as in the last budgetary period. The lion's share of the money is being spent on helping Member States to comply with EU environmental legislation. A further €48 billion is going on achieving Europe's climate objectives, including, **€4.8 billion for renewable energies** and **€4.2 billion for energy**

[7] The EU climate and energy package: a reduction in EU greenhouse gas emissions of at least 20% below 1990 levels; 20% of EU energy consumption to come from renewable resources; a 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency
[8] http://ec.europa.eu/commission_2010-2014/president/news/documents/pdf/energy_project_en.pdf
[9] http://www.europeanenergyreview.eu/index.php?id=740&id_referer=2739&id_artikel=2739
[10] These OPs define for each Member States priorities to be pursed and concrete measures to be financed, for instance projects that aim at construct power plants fueled with renewables, building insulation projects etc.

efficiency[11]. A stronger emphasis is also placed on energy infrastructure (EUR 1.8 billion) and on improving the management of energy resources. Also on 9th March 2009 MEPs voted to extend EU regional development funding to energy efficiency and investment in renewable energy for housing to all Member States[12]. Not to mention JESSICA, (Joint European Support for Sustainable Investment in City Areas), an initiative of the Commission in cooperation with the European Investment Bank, and the Council of Europe Development Bank, that allows Member States to use some of their Structural Funds, to make repayable investments in projects forming part of an integrated plan for sustainable urban development. An integrated plan for urban development often includes measures for renovation and increasing energy efficiency in public buildings and social housing.

Undoubtedly, regional policy plays a major role in expanding energy infrastructure, especially in new Member States[13]. In Poland (the greatest recipient of the EU regional policy in the current programming period – €67 billion, almost 20% of the entire EU cohesion policy for the period), structural and cohesion funds enable Polish public and private stakeholders to fund energy projects[14]. Operational programme "Infrastructure and Environment" has earmarked some € 1.7 billion to various types of projects, including:

⇒ Construction or modernization of entities producing:
  - Electricity using biomass, biogas, energy of wind and water;
  - Heat, with the use of geothermal and solar energy.
  - Combined heat and power from renewable energy sources.

⇒ Enhancing of energy efficiency in industrial settings and public buildings;

⇒ Development of transmission systems of electric energy, natural gas and crude oil and the construction and redevelopment of natural gas storage facilities.

Some additional funding opportunities exist in each region, under 16 regional operational programmes. This is particularly important for a country where basic infrastructure is still dramatically lacking and where current energy situation is forcing Polish authorities to look for alternatives to fossil-fuel power generation. Without the EU legislative framework and subsidies, massive investment in renewables and energy efficiency could not take up as energy, although crucial for economy, is clearly not on the top of the national political agenda[15].

Given its importance in securing financial incentives for investment in energy infrastructure, one can wonder what will happen with "energy objective" in the future programming period 2014-2020.

What's in store for the future of energy in cohesion policy?

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[11] Compared to the previous period, the figure of the investment in energy efficiency and renewable energy projects for 2007-2013 period represents an amount which is five times higher than under the Convergence Objective and seven times higher than under the Regional Competitiveness and Employment Objective between 2000 and 2006)

[12] http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P6-TA-2009-0207+0+DOC+XML+V0//EN&language=EN

[13] Former communist states that jointed the EU after 2004 (Poland, Czech Republic, Slovakia, Hungary, Estonia, Lithuania, Latvia, Slovenia, Romania and Bulgaria)

[14] http://www.pois.gov.pl/English/Documents_POIS/Documents/7122008_POIiS_ENG.pdf

[15] This is the case in particular in many Central European countries. In Poland for instance the number of kilometres of highways constructed is a more visible indicator of how a given government is faring in spending the EU and national resources.

The answer will depend on multiple factors. The future of energy, and support to renewables and energy efficiency in particular, within regional policy is directly linked with the financial envelope this policy will be given in the future programming period, which will result from negotiations of the EU long-term 'Financial Perspectives'. Bargaining on the latter kick-started already by the end of 2010 and perspectives for the EU cohesion policy don't seem particularly bright. UK Prime Minister, David Cameron, has been building an alliance with Nicolas Sarkozy and Angela Merkel (the biggest contributors to the EU budget) in favor of a real-term EU budget freeze. With a constant budget for the next seven years, the main question is which policies undergo some radical budgetary adjustments: regional policy or the Common Agricultural Policy? And judging by France's recent declarations[16], the latter might come first. Poland took a leading position in the process of negotiation and is coordinating its stance with other nations from Central Europe in favor of a robust regional funding. At this stage, the outcome of negotiations remains unclear, and one can only hope that Poland's presidency, that starts in July 2011, will be an opportunity to put the future of cohesion policy budget (and the need to maintain its current envelope) at the top of political agenda. Let's all keep our fingers crossed that Poland will be sturdy enough to convince the EU heavy-weights that all European regions need a hand from Brussels.

The EU commissioner in charge of regional policy, Johannes Hahn, has called at the beginning of February on regional and national governments to make sure they use up all the money that is available from the EU structural funds by speeding up the implementation of projects on the ground. He pointed out that "if Europe's regions fail to spend all of the money that has been allocated to them in the current seven-year period, then it will be difficult for him to stop the Council from cutting the budget for regional policy "[17]. There's is no doubt Mr Hahn has a point. In reference to energy in particular, Member States seem to be particularly slow in selecting and implementing projects. The European Commission issued on 26 January 2011 a Communication entitled "EU Regional Policy- key for achieving Union's 2020 sustainable growth goals"[18] in which the EU executive points to the disappointingly low level of subsidies absorption towards projects contributing to achieve "a low carbon, resource efficient, climate resilient and competitive economy". According to the EC "by the end of 2009, 22% of the EU funding for sustainable growth had been allocated to specific projects compared to 27% for the total of Regional funding". Figures for energy are even more depressing : only 4% of ressources allocatted to electricity projects have been channeled to concrete projects and 15% to sustainable energy (renewables & energy efficiency). In Poland, named earlier as a "laboratory" of the EU cohesion Policy, by the end of 2009 only 0.5% of funds in the field of energy have been allocated to selected projects[19]. In Bulgaria and Romania, energy-related actions in existing Operationnal Programmes have just been defined and calls for projects barely launched. According to the EC the main reasons behind this delay lays in the fact that "energy efficiency and renewable energy were not recognised as the priorities they are today (...) the financial crisis, restricted public budgets, administrative bottlenecks and insufficient technical expertise in what are relatively new areas of activity for managing authorities have all contributed to delays in these fields". It is now up to national and regional managing authorities to prove they are capable of a) gauging the

[16] *France pushes for cuts in EU regional funding*, http://www.euractiv.com/en/regional-policy/france-pushes-cuts-eu-regional-funding-news-502518

[17] *Hahn urges regions to speed up spending*, http://www.euractiv.com/en/regional-policy/hahn-urges-regions-speed-spending-news-501818

[18] http://ec.europa.eu/regional_policy/newsroom/detail_en.cfm?id=52&lang=en

[19] Cohesion policy: Strategic report 2010 on the implementation of the programmes 2007-2013, http://ec.europa.eu/regional_policy/policy/reporting/cs_reports_en.htm

importance of energy issue, b) pulling all necessary administrative and financial ressources to quickly select best and viable projects in this area. In the end, it will determine the EC decision to keep on directing ressources to energy sector through regional schemes.

The fifth cohesion report – a crystal ball for predicting the future of grants for energy projects?

The Fifth Report on Economic, Social and Territorial Cohesion published on 10 November 2010 was awaited with impatience by all EU cohesion stakeholders and academic afficionados of the subject. The 268 page-long document (English version) provides a detailed analysis of regional disparities, describes the contribution of the EU, national and regional governments to reinforcing cohesion with the EU, and sets directions for the reform of the Cohesion Policy after 2013. A glimpse on the place energy is given in this report could tell us a lot of where this issue is heading in the next programming period. And here again, things do not look good. One thing is certain, energy, although present, is not fully acknowledged as a key component of the European strategy towards a more cohesive space and economy.

Admittedly, the report emphasizes the imperative of "reducing green house gas emissions and therefore increasing the renewable energy (…) through setting and abiding to national renewable energy targets set by each individual Member States as well as development of wind and solar power throughout the EU (…) and investment towards increased energy efficiency in transport and housing". Yet the impact of energy on the EU economy is only regarded as an indirect one. It seems like the EU can boost its growth rates through targeted investment in education and innovation. However, these two elements can only reap benefits if accompanied by adequate infrastructure "for 21st century" that includes transport, telecommunications and energy.

What is missing in the report is a correct gauge of direct impact energy, in particular investments in renewable and energy efficiency projects, has and will increasingly have on economic, social and territorial cohesion of the EU.

Investing in energy has a thorough and immediate effect on economic growth and thus on economic convergence of European regions. Renewable energies employ currently 400,000 in the EU alone, while 900,000 people are employed in energy-efficiency sectors.[20] A Greenpeace study[21] estimates the global job potential of the renewable energy and energy efficiency sector at over 8 million. In Germany alone, 250 000 new jobs were created on the basis of the Renewable Energy Act (2001) and forecasters reckon that there will be 400 000 more employees by 2020[22]. Jobs can be created not only in solar and wind energy sectors, but also in biomass sector[23], noticeably overlooked by the chapter dealing with the need for increasing renewable energy generation. Again, an important omission of the authors: the EC

[20] "Low carbon Jobs for Europe: Current Opportunities and Future Prospects". WWF Report (2009)

[21] Greenpeace and European Renewable Energy Council (EREC) report entitled 'Working for the climate: renewable energy and the green job revolution' of 2009

[22] Draft report on developing the job potential of a new sustainable economy (2010/2010(INI)) Committee on Employment and Social Affairs Rapporteur: Elisabeth Schroedter

[23] "Harvesting agricultural and turning them into next-generation biofuels and biomass could generate up to €31bn for the EU economy per year by 2020. The sector could generate up to a million man-years of employment across the 27 member states over the next decade (…).Central and Eastern European member states as a group contribute about a quarter of the total potential" - http://www.novozymes.com/en/MainStructure/PressAndPublications/PressRelease/2010/KBBE2010.htm

Communication from January 2011[24] states that in the heating and cooling sector, biomass will remain the dominant technology, with 50% of the growth up to 2020 occurring in energy produced from this source growth of technologies in the next decade. Given the fact that biomass is recognized as "a key contributor within all energy sectors" [25] in the EU by the DG Energy, one can only wonder why DG Regio that elaborates the successive cohesion reports doesn't consult its colleagues responsible for drafting the EU energy policy…

In reference to energy efficiency, hitting the EU 20% target by 2020 would cut Europe's energy bill by about € 200 billion, boost R&D and create markets where EU can become a global leader. That's pretty impressive, and it definitely wouldn't hurt European economy in the coming years to earn some extra cash. Not to mention, all of those visionaries who see in low-carbon economy the future for the EU.

In regards to **social cohesion**, the report focuses on various objectives and subjective measures in regards to the overall living standards and well-being of the European citizens. None of them however takes into consideration the issue of **energy poverty** that is the incapacity of people to heat their own homes during winter months. Material deprivation defined in the Fifth Cohesion Report[26] doesn't include any notion linked to energy or fuel poverty, the latter being identified in households in which energy costs are greater than 10% of their disposable income. This is often the case of countries in South East Europe (Bulgaria and Romania), to have households that turn to use wood for heating with a serious risks for health and environment. "Energy poor" cannot afford basic energy services as a result of their low incomes and poor housing. Energy prices are likely to soar more and more in the future as a result of rising global demand for fossil fuels, heavy burden that the EU ETS imposes on the European power sector as well as still (too) high investment costs in alternatives energy sources. **More expensive energy is therefore directly threatening the objective of social cohesion**. Investment towards achieving the EU 20% energy efficiency target by 2020 alone could lower households' bills by an estimated €1000 per household per year. Financing of projects that foster power and heat generation from locally available sources, could help populations who are settled in remote and isolated areas to have access to reliable and affordable energy.

Last but not least, there is the **territorial cohesion** aspect. This fairly convoluted, is all "about ensuring the harmonious development of diversified European regions and about making sure that their citizens are able to make the most of inherent features of these territories (…)[27]. In the 5th Report, territorial cohesion reinforces "the importance of access to services of general economic interest (…), sustainable development (…), functional geographies, and better territorial analysis of the European policies impact (…)". In relation to energy, pursuing the goal of territorial cohesion means not only to guarantee equal access to viable electricity and heating even in the most remote and secluded territories of the EU, but also, and above all, to make of local energy supplies a genuine vehicle for regional development. This is precisely

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[24] *Renewable Energy: Progressing towards the 2020 target,* http://ec.europa.eu/energy/renewables/reports/doc/com_2011_0031_en.pdf

[25] Financing Renewable Energy in the European Energy Market, http://ec.europa.eu/energy/renewables/studies/doc/renewables/2011_financing_renewable.pdf

[26] "The enforced lack of at least three of the nine items: ability to face unexpected expenses, ability to pay for a one week annual holiday away from home, existence of arrear, capacity to have meal with meat, chicken or fish every second days, capacity to keep home adequately warm, possession of a washing machine, a color TV, a telephone or a personal car"

[27] Green Paper on Territorial Cohesion - Turning territorial diversity into strength, 2008

what happens with cities turning to locally available renewables to fuel district heating networks, when they invest in thermal insulation and more energy efficient public buildings, when villages invest in biomass-fuelled power plants and turn to local farmers for supply in biomass. This is how "transforming diversity into an asset that contributes to sustainable development of the entire EU" can occur[28].

It is true that the Fifth cohesion report gives some thought to the importance of investing in alternative energy sources and energy efficiency, and recognizes the need for reinforcing local energy generation. But it fails to recognize how instrumental these sectors will be for the future of European regions. To bring into existence economic, social and territorial cohesion, Europe should be able to provide solid support towards this kind of projects, ideally through the existing framework of a reformed cohesion policy.

By way of conclusion

There are some signs that energy will not be forgotten in the future programming period. The most important is a manifest desire of virtually all European stakeholders to align the objectives of the Cohesion Policy on the Europe 2020 strategy targets. The European Commission is clearly determined to push the EU on the path towards a low-carbon and innovative economy. Europe 2020 takes up again Climate/Energy Package targets so there is hope Europe will be willing to apportion some structural and cohesion funds towards these goals in the future programming period.

Some question marks pertain: How much money will energy get and towards which type of projects will the EU subsidies be channelled? Will renewable and energy efficiency enhancing initiatives receive the lion's share of financial support, to the detriment of projects based on fossil-fuels? Given the recent Fukushima nuclear power plant disaster, is nuclear energy likely to have its "green energy" status (just like France advocated it) ?

What type of support will be available to energy-related projects? In the Fifth report conclusions[29], the EC proposes to "extend financial engineering instruments in scope and scale". The period 2007-2013 saw the introduction of these forms of finance, that allow for a shift away from traditional grant-based financing towards innovative ways of combining grants and loans with the introduction of various financial engineering instruments. JESSICA (Joint European Support for Sustainable Investment in City Areas) is currently being deployed in some Member States. In the field of energy[30], in Lithuania the country's Holding Fund will mainly fund projects that deliver energy efficiency improvement in the housing sector. Other countries are likely to follow suit. What is striking is that the EC proposes to increase the part of financial engineering instruments in cohesion policy while it does not have at its disposal sufficient insight on their effectiveness as JESSICA is only about to be developed. At this stage it is hard to tell whether access to refundable forms of finance will encourage or put off potential project bearers, especially in comparison with traditional grant-based system. One can also wonder whether the EC wishes to replace little by little the subsidy system by repayable forms of financing or only combine interest subsidies with loan capital or other forms of more or less sophisticated financial instruments.

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[28] Idem
[29] http://partedebruxelas.blogaliza.org/files/2010/10/Filtracion-5o-Informe-Cohesion.pdf
[30] http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm

What about public-private partnerships? Projects based on a long-term cooperation between a public authority and a private operator can be crucial for development of energy infrastructure, especially in cities (the example of renovation of district heating networks) where public funding is insufficient to follow through costly overhaul initiatives. Although JESSICA is explicitly designed to foster public-private partnerships, PPPs in the energy sector are scarce, if not inexistent.[31] Also the EU funds regulations regarding the attribution of EU grants to revenue generating projects (in particular articles 55, 56 and 57)[32] are nowadays a serious obstacle to rapid development of public-private ventures.

The conclusions of the report also put forward a proposal for a more strategic programming. Member States and regions would be asked to concentrate EU and national resources on a small number of priorities of European importance, previously defined by the EU executives. Depending on the amount of Community funding involved, countries and regions will have to focus on more or less priorities. For the moment it is uncertain whether energy alone could be considered as such a priority or whether it would be included as a component of larger, over-arching policy objective (i.e. competitiveness). But above all, there is no guarantee that Member States will decide to make energy one of their priority objectives. The EC can propose a list of themes but it looks like it will be up to MS to pick their own mix of strategic orientations. There is only so much the EC can do and we can only hope the Member States will make the right choice.

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[31] Some pilot projects of construction of incinerators within PPP scheme are currently being prepared in Poland, in the city of Poznań and Łódź.

[32] Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999