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Energy within the EU cohesion policy (2014-2020) – following the path of decarbonisation

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Energy is a very special object of study: it determines how societies are organized, both economically and spatially. It defines how we live, produce, consume and interact. It can be a factor of cohesion (at national and regional level) but also of a conflict (most frequently in geopolitical dealings between various nation states).

The EU is nowadays[1] *clearly trying to establish itself as a relevant actor in the field of energy, vis-a-vis member states, its neighbors but also vis-à-vis European regions. It does so by providing them with significant resources to finance what is called in the EU jargon, a "transition towards a low-carbon economy". Like every transition that is about to start, the process is bumpy and needs considerable means to be deployed. In this brief article we look at how the EU plans to encourage European regions to embark on low-carbon path, through its 2014-2020 cohesion policy. While prospects seem bright (in respect to previous programming periods), many questions remain and will need to be elucidated in the next couple of months.*

In my last contribution regarding the relation between territorial cohesion and energy in the next programming period of the EU regional policy (2014-2020), I deplored the lack of sufficient consideration of energy as a factor contributing towards a greater territorial cohesion. This critical assessment of the EU regional policy was based on The Fifth Report on Economic, Social and Territorial Cohesion published on 10 November 2011[2]. As much as the relationship between territorial cohesion and energy (in particular energy produced in decentralized manner and energy efficiency) hasn't changed, since the publication of the Fifth Report, the European Commission, and the DG Regio[3] in particular, made significant progress in preparing the next programming period of cohesion policy. Many things have changed, also with regard to energy.

New regulations for Cohesion Policy

The 2007-2013 Cohesion Policy was governed by a set of rules defined in Structural Funds Regulations. These included General Regulations[4], Implementing Regulation[5], ERDF Regulation[6], ESF Regulation[7], EGTC Regulation[8] and Cohesion Fund Regulation[9]. This package of five acts was adopted by the Council and the European Parliament in July 2006 to define the legal basis for "pursuing the objectives (...) laid down by articles 158-162 of the Treaty establishing the European Communities (...) that the Union should promote an overall harmonious development and

1 And in particular, since the adopton of « Climate-Energy Package » in 2008, http://ec.europa.eu/clima/policies/package/index_en.htm

2 http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion5/index_en.cfm

3 Directorate-General for Regional and Urban Policy, http://ec.europa.eu/dgs/regional_policy/index_en.htm

4 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;

5 Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund

6 Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999

7 Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999

8 Regulation (EC) No 1082/2006 of the European Parliament and of the Council of 5 July 2006 on a European grouping of territorial cooperation (EGTC)

9 Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94

strengthen economic and social cohesion by reducing development disparities between the regions”[10]. For the next programming period, the European Commission adopted a draft legislative package which is designed this time to “reinforce the strategic dimension of the policy and to ensure that EU investment is targeted on Europe's long-term goals for growth and jobs ("Europe 2020")”[11].

The new legislative package contains: Common Provisions[12], European Regional Development Fund Regulation, Cohesion Fund Regulation and European Social Fund Regulation13. Those regulations offer a glimpse into how the European Commission wishes to modify the functioning and even more, the entire philosophy of the cohesion policy during the next programming period14.

What will change?

First of all15, new regulations are aimed at **reinforcing effectiveness and performance of the EU cohesion policy**. This is to be achieved through a greater focus on results (with a common and programme-specific indicators, new reporting, monitoring and evaluation tools); establishing of a performance framework for all programmes (with clear and measurable milestones and targets, with a performance reserve that will take some 5 % of national allocations by Member State and with ex -ante and macro-economic conditionality).

In the same vein, the EU wants to ensure that the EU funds are used in a **more coherent and strategic way and serve to deliver the Europe 2020 strategy objectives of smart, sustainable and inclusive growth**[16]**.** The EU funds allocation will be implemented through a **Common Strategic Framework** (that is a comprehensive investment strategy aligned with Europe 2020 objectives, coherent with National Reform Programmes and defined at the EU level), **Partnership Contracts** (established between the European Commission and the Member States) and **Operational Programmes** (defined by Member States in line with Partnership Contracts).

Each member state will have at its disposal a determined menu of thematic objectives out of which it will have to choose 5-6 key objectives to be contained it its Partnership Contract with the European Commission. Those objectives include: (1) research and innovation, (2) information and communication technologies (ICT); (3) competitiveness of Small and Medium-sized Enterprises (SMEs), (4) **shift towards a low-carbon economy, (5) climate change adaptation and risk prevention and management, (6) environmental protection and resource efficiency**, (7) sustainable transport and removing bottlenecks in key network infrastructures, (8) employment and supporting labour mobility, (9) social inclusion and combating poverty, (10) education, skills and lifelong learning, (11) institutional capacity building and efficient public administrations. As under Lisbon Agenda, EU resources had to be earmarked to specific Lisbon objectives, this time around, the European Commission wishes to introduce a specific thematic concentration to maximize the impact of the EU cohesion policy. The Commission wants more developed and transition regions to devote 80% of their ERDF investments on Research and Innovation, Competitiveness of SMEs and

10 http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm

11 http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

12 On the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund

13 There are also provision for European Globalisation Adjustment Fund, European Union Programme for Social Change and Innovation, European Territorial Cooperation, and European Grouping of Territorial Cooperation

14 The document doesn't explore the link between the notion of territorial cohesion and energy, and rightly so. It's is a legal proosal, specifying legal basis for the implementation of the EU funds. The Fifth Report on the contrary is a strategic text and should have explored more these specific ties.

15 Source for the following chapter: “EU Cohesion Policy2014-2020” - General presentation on proposals for Cohesion Policy 2014-2020, http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

16 http://ec.europa.eu/europe2020/index_en.htm

Energy efficiency and renewable energy. In less developed regions (currently "convergence regions" - mostly situated in new Member States of the EU, who also benefit from the Cohesion Fund), 50% of ERDF investments should also go to the same objectives.

The Commission's ambition is also to further simplify programming, management and use of the EU cohesion funds. This should be achieved through a series of measures such as: introduction of common rules for funds covered by Common Strategic Framework Cohesion Policy, and rural development and maritime and fisheries policy, introduction of a possibility of having multi-fund programmes (that include funding from ERDF, ESF and Cohesion Fund – an option forbidden in the current programming period), streamlined delivery system, harmonized rules on eligibility and durability, greater use of simplified costs, linking payments with results, and last but not least proportional approach to control[17].

The new cohesion policy will also reinforce the principles of territorial, and in particular, of urban cohesion (at least 5 % of ERDF resources will be devoted to sustainable urban development; there will be an urban development platform to help cities network and exchange on urban policy, up to 0.2 % of the annual funding will go towards innovative actions for sustainable urban development, some additional allocations will be prepared for outermost and sparsely populated regions).

In an effort to maximize the efficiency and impact of the EU cohesion policy, the European Commission wishes to extend the use of innovative financial instruments, especially towards projects that are likely to generate revenues. As for subsidies, that will be maintained, maximum co-financing rates will be of 75-85 % in less developed and outermost regions, of 60 % in transition regions, and 50 % in more developed regions[18].

What will change in regards to energy?

Creation of Connecting Europe Facility

When it comes to the issue of energy, the Common Provisions[19] propose to set up **Connecting Europe Facility** to "encourage the necessary acceleration of development of infrastructure in transport and energy as well as information and communication technologies across the Union. The CEF will be fed through Cohesion Fund[20] and will be dedicated to the implementation of the Union policies for Trans-European Transport Networks of infrastructure (TENs) in the field of transport, telecommunications and energy.

Better coordination (and separation) of Funds for Energy

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17 This is one of the major changes that would greatly ease beneficiaries life. In effect, in many interviews I made in Poland and France, harsh and excessive audits and controls of projects that benefit from the EU support play a key role in discouraging actors from applying for the EU funds.

18 This is also a novelty – the regulation proposed a new category of transition regions, with a GDP/capita comprised between 75% and 90% of the EU average

19 The original proposal was adopted on 6 October 2011. A corrigendum to the proposal was adopted by the Commission on 14 March 2012 with the objective of correcting errors and omissions identified in the original version. The latest amended proposal dates back to 11/09/2012. Source: http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

20 "The allocation of the annual appropriations from the Funds and the amounts transferred from the Cohesion Fund to the Connecting Europe Facility to a Member State should be limited to a ceiling that would be fixed taking into account the capacity of that particular Member State to absorb these appropriations". Source: Amended proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006 ; p. 13

However, the European Commission stresses the importance of coordinated project planning so as to ensure that project that already benefits from ERDF and/or Cohesion Fund support would not be submitted for CEF funding. This coordination should also be strictly applied in regards to the the NER 300 Programme "which uses the revenues from auctioning 300 million allowances reserved under the new entrants reserve of the European Emissions Trading Scheme to co-finance a wide range of large-scale demonstration projects of carbon capture and storage (CCS) as well as of innovative renewables technologies across the EU"[21].

Introducing ex-ante conditionality in the field of energy

The Common Provision also introduces the principles of **ex-ante conditionality** that "should be defined to ensure that the necessary framework conditions for the effective use of Union support are in place. The fulfillment of those ex ante conditionalities should be assessed by the Commission in the framework of its assessment of the Partnership Contract and programmes. In cases where there is a failure to fulfill an ex ante conditionality, the Commission should have the power to suspend payments to the programme"[22] (...) "The Commission shall assess the information provided on the fulfilment of ex ante conditionalities in the framework of its assessment of the Partnership Contract and programmes. It may decide, when adopting a programme, to suspend all or part of interim payments to the programme pending the satisfactory completion of actions to fulfill an ex ante conditionality"[23]. Annex IV at the end of Common Provisions provides a list of aforementioned thematic objectives and associated required legal arrangements in member states. In the field of energy (under the heading of "Supporting the Shift towards a low-carbon economy in all sectors), it is required, that by the time their Operational Programmes are submitted to the Commission, the Member States have had: transposed into national law Directive (2010/31/EU) of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings, complied with Article 6(1) of Decision No 406/2009/EC of the European Parliament and of the Council of 23April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020; transposed into national law Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services; transposed into national law Directive 2004/8/EC of the European Parliament and of the Council of 11 February 2004 on the promotion of cogeneration based on a useful demand in the internal energy; and finally, transposed into national law Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources.

The introduction of this principle is not benign. It will have a strong impact of Member States actions when it comes to transposing and implementing relevant EU legislation, also in the field of energy. The document specifies that in case when "each ex ante conditionality, established in accordance with Annex IV, is not fulfilled at the date of submission of the Partnership Contract and operational programme, a description of the actions to fulfill the ex ante conditionality and a timetable for such action should be prepared by Member States".

The lack of compliance will be tantamount to no access to new funds or a suspension of already attributed EU funds. This is likely to have a particularly strong mobilizing effect on legislative

21 Source: Amended proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006 ; p. 127

22 Idem. p.7

23 Idem.p. 32

frameworks of new member states of the EU, who frequently lag behind when it comes to legal adoption of EU acts in the field of energy, and who also benefit largely from the EU funds. This new constraint might also explain, why a country like Poland, the major beneficiary of the EU funds, is doing all it can to adopt a new Renewable Energy Act by the beginning of 2013, in order to comply with the 2009/28/EC Directive.

Yet the impact will remain limited to two fields covered by the EU cohesion policy that is Energy Efficiency and Renewable Energy sources. It will not affect legislation regarding the Internal Energy Market or the European Emission Trading System.

More money for Energy

As mentioned before, the European Commission desires to ring-fence EU resources towards specific priorities during the next programming period. As the cohesion policy is thought of as a tool to deliver "Europe 2020" objectives, a significant amount of funding is likely to be planned for, among others, the realization of the EU climate and energy package (that is to reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in final energy consumption to 20%, and achieve a 20% increase in energy efficiency[24]). Accordingly, out of 80% of their ERDF investments on Research and Innovation, Competitiveness of SMEs and Energy efficiency and renewable energy, more developed and transition regions should seek for at least 20% for energy priorities. In less developed regions, the percentage should reach at least 6%. That was the figure contained in the initial proposal for cohesion policy regulations. On July 11th, 2012 the Committee on regional development of the European Parliament voted on the Cohesion policy package for 2014-2020. Member of European Parliament have accepted climate earmarking (which includes energy efficiency and renewable energy use in the housing sector) in the European Regional Development Fund of 22% for developed and transition regions, and 12% for less developed regions. Based on the European Commission budget proposal, this represents 25,4 billion (29 billion if CEE countries want to include Cohesion Fund in the counting)[25]. This is an important increase as compared to the current funding period, where energy stands for some 2.7% of the overall EU cohesion policy budget[26].

According to the ERDF regulation[27] and Cohesion Fund regulation[28] funding for energy will be ensured mainly through the European Regional Development and Cohesion Funds. The article 3 of the ERDF regulation specifies the scope of support: "The ERDF shall support, among other, investments in infrastructure providing basic services to citizens in the areas of energy, environment, transport, and information and communication technologies (ICT) (priority b), (...) development of endogenous potential by supporting regional and local development and research and innovation, which (in relation to energy issues) will include support to public research and innovation bodies and investment in technology and applied research in enterprises; and networking, cooperation and exchange of experience between regions, towns, and relevant social, economic and environmental actors. As for Cohesion Fund, it is planned that in relation to energy, it

24 Source: http://ec.europa.eu/europe2020/index_en.htm

25 Direct quote from "EP vote on Cohesion Policy: Yes to EU support to adaptation of housing for elderly tenants", http://www.eukn.org/News/2012/EP_vote_on_Cohesion_Policy_Yes_to_EU_support_to_adaptation_of_housing_for_elderly_tenants

26 For 2007-2013 period, the overall regional policy budget is 347 billion euro. Source: http://europa.eu/legislation_summaries/regional_policy/review_and_future/g24246_en.htm

27 REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on specific provisions concerning the European Regional Development Fund and the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006, Brussels, 6.10.2011 COM(2011) 614 final, 2011/0275 (COD)

28 Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94

will support: investments in the environment (including areas related to sustainable development and energy which present environmental benefits)[29].

Both funds will have the same investment priorities within the objective of "supporting the shift towards a low-carbon economy in all sectors": **promoting the production and distribution of renewable energy sources; promoting energy efficiency and renewable energy use in SMEs; supporting energy efficiency and renewable energy use in public infrastructures and in the housing sector; developing smart distribution systems at low voltage levels; promoting low-carbon strategies for urban areas"**[30]. The key actions for investment will include[31]:

- Innovative renewable energy technologies, in particular technologies mentioned in the SET-Plan and in the Energy Roadmap 2050, along with 2nd and 3rd generation biofuels;
- Supporting marine-based renewable energy production, including tidal and wave energy;
- Investment in the wider use of Energy Performance Contracting in the public buildings and housing sectors;
- Energy efficiency and renewable heating and cooling in public buildings, in particular demonstration of zero-emission and positive-energy buildings, and deep renovation of existing buildings to beyond cost-optimal levels
- Integrated low-carbon strategies and sustainable energy action plans for urban areas, including public lighting systems and smart grids.

Both funds will not support the decommissioning of nuclear power stations, and the reduction of greenhouse gas emissions in installations falling under Directive 2003/87/EC[32]. Also while the ERDF will support efficiency and renewable energy use in public infrastructures and in the housing sector, the housing sector is excluded from support through cohesion Fund. Yet, contrary to the current programming period, the chances are the ceiling of maximum 4% of ERDF for investing in energy efficiency in housing will be lifted, enabling European regions to put greater financial resources on this objective[33].

Additionally, the EU funds will serve the purpose of helping climate change adaptation, and risk prevention and management and supporting sustainable transport (through TEN-T, connecting to TEN-T for only ERDF, environment friendly and low-carbon transport systems and sustainable urban mobility, and development of railway systems)[34].

As for the European Social Fund (ESF)[35], during the next programming period it will be designed also to support the transition towards low-carbon economy[36]. It will be up to the member states to

29 Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94, art. 2, p: 8

30 Art. 5, COM(2011) 614 final 2011/0275 (COD), p. 12; Art. 3, COM(2011) 612 final/2, 2011/0274 (COD), p: 8.

31 Presentation "EPEC and Energy Efficiency", Stuart Broom 20 November 2012, Budapest, Energy Investment Day in Hungary, p: 17

32 DIRECTIVE 2003/87/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC

33 Presentation: "Energy and climate change in cohesion policy 2014-2020", Open Days 2011, Agnes Kelemen Policy Analyst DG REGIO

34 Art. 5, COM(2011) 614 final 2011/0275 (COD), p. 13; Art. 3, COM(2011) 612 final/2, 2011/0274 (COD), p: 9.

35 That is devoted to promoting employment in the EU. The Fund helps Member States make Europe's workforce and companies better equipped to face new, global challenges. Source: http://ec.europa.eu/esf/main.jsp?catId=35&langId=en

36 "In terms of scope, the draft ESF Regulation for 2014-2020 proposes to target the ESF on four 'thematic objectives' throughout the European Union: (i) promoting employment and labour mobility; (ii) investing in education, skills and lifelong learning; (iii) promoting social inclusion and combating poverty; (iv) enhancing institutional capacity and an efficient public administration. Each thematic objective is translated into intervention categories or

decide what types of actions will be supported through the ESF and what amounts of financing will be directed towards the objective of decarbonisation. For some member states, the issue of facilitating creation of green jobs and green skills is already tackled in the 2014-2020 perspective[37]. In new member states, it only becomes grounds for thought[38].

Integration of energy into the overall framework

Energy and climate change will be integrated in all programming documents of cohesion policy. First of all, the aforementioned Partnership Contracts must ensure alignment with Europe 2020 objectives (including objective 4). This will be achieved through careful ex-ante evaluation of actions proposed, identification of main expected results and of indicative support by thematic objective at national level (including total amount foreseen for climate change), design of a table of milestones and of specific targets for each objective[39]. Then Operational Programmes will have to contain arrangements to ensure alignment with Europe 2020, such as a clearly designed strategy to contribute to Europe 2020; clearly set out priorities, objectives and financial appropriations, and finally output and result indicators. Those obligatory indicators, in respect to energy, will have to indicate, for investments financed with ERDF and Cohesion Fund: additional MW of capacity from renewable energy sources, number of households with improved energy consumption classification, kWh/yr decrease of primary energy consumption in public buildings, number of energy users connected to smart grids, and tCO2e of GHG emission reduction[40].

When it comes to evaluation, ex-ante evaluation of operational programs will assess contribution of planned investments to sustainable growth and sustainable energy action plans at country level. Each year, each member state will also have of provide a progress report that provides financial date, indicators, targets, milestones and ex-ante conditionalities[41]. Finally progress report (to be submitted by 30 June 2017 and by 30 June 2019 will assess “progress towards achievement of the Union strategy for smart, sustainable and inclusive growth, in particular in respect of the milestones set out for each programme in the performance framework and the support used for climate change objectives”[42].

What funding instruments available for energy?

While cohesion policy during 2014-2020 will keep on operating through grant-based

‘investment priorities’. In addition, the ESF should contribute also to other thematic objectives such as supporting the shift towards low-carbon, climate resilient and resource efficient economy, enhancing the use of information and communication technologies, strengthening research, technological development and innovation and enhancing the competitiveness of small and medium-sized enterprises”. Source: REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Social Fund and repealing Council Regulation (EC) No 1081/2006, COM(2011) 607 final /2, 2011/0268 (COD), p. 5.

37 See the UK ESF-Works website on that topic : http://www.esf-works.com/themes/climate-change-and-the-low-carbon-economy/overview

38 See a OECD recent study “Enabling Local Green Growth: Addressing Climate Change Effects on Employment and Local Development” that explores the potential for Green Jobs in Poland and that will serve as a basis for the preparing FSE programming on this issue in Poland, http://www.oecd.org/cfe/leed/49387595.pdf

39 Presentation: “Energy and climate change in cohesion policy 2014-2020”, Open Days 2011, Agnes Kelemen Policy Analyst DG REGIO

40 COM(2011) 612 final/2, 2011/0274 (COD), p: 11

41 Presentation: “Energy and climate change in cohesion policy 2014-2020”, Open Days 2011, Agnes Kelemen Policy Analyst DG REGIO

42 Amended proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006 ; p. 61

support, major changes will affect the way grants will be attributed. It is highly likely that for physical investment in the field of energy, grants shall be used primarily for the following purposes: to address market failures; to support innovative technologies; to support investments beyond cost-optimal energy efficiency performance (to guarantee energy savings and GHG emission reductions above "business as usual")[43].

As aforementioned, the next programming budgetary period is all about maximizing the impact of the EU resources. In the field of energy, it will mean that “investments should be driven chiefly through private sector (...) Member States and regions should make sure that public funding complements private investment, leveraging it and not crowding it out. In the energy efficiency sector, options for creating value for energy savings through market mechanisms (in particular through cooperation with ESCO companies) should be considered first before applying for pubic support. Also financial instruments can be used, in particular where potential for private revenue or cost savings is large”[44]. In general, the European Commission position can be summed up as follows: **look for market mechanisms for funding first. Be innovative and work in partnerships. When revenues can be generated, we will help you with alternative solutions, such as interest rate subsidies, guarantee fee subsidies or innovative financial instruments. When market is not a solution, some grants will be available (but only for the most innovative and over the edge solutions).**

The EC wishes to extend in particular the use of innovative financial instruments, following the example of JESSICA (Joint European Support for Sustainable Investment in City Areas)[45]. The European Commission will try to push member states to use as much of these new financial devices as possible[46]. The idea is to devote a part of the EU funds towards revolving funds (complemented with national, regional or public funds) that will lend it to potential investors, preferably public-private partnerships. As investments generate profits and investors can reimburse funds, it will fed EU or national-wide funds for new investments. And the self-enhancing cycle of investment keeps turning.

This rapid review of what is going to change in the cohesion policy over the next 8 years indicates that the energy, seen through the prism of transition towards a low-carbon economy, is being taken seriously (both by the European Commission and the European Parliament). It seems like with more abundant and more targeted funding, the EU not only sets ambitious targets but tries to provide the EU regions with significant financial means to achieve them. Yet, there are many uncertainties about the final consensus regarding funding of energy priorities through cohesion policy during 2014-2020 funding period.

Many uncertainties remain

How much money? For real?

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43 Direct quote from the presentation: “EPEC and Energy Efficiency”, Stuart Broom 20 November 2012, Budapest, Energy Investment Day in Hungary, p: 19

44 Direct quote from the presentation: “EPEC and Energy Efficiency”, Stuart Broom 20 November 2012, Budapest, Energy Investment Day in Hungary, p: 19

45 http://ec.europa.eu/regional_policy/thefunds/instruments/jessica_en.cfm

46 See point 5.1.6 of Proposal for aREGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Council Regulation (EC) No 1083/2006http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation/general/general_proposal_en.pdf.

Although it looks like in relative terms the envelope devoted to energy might be considerably increased during the next programming period (an increase from the current 2.7% of the overall EU cohesion policy budget to 22% in more developed regions and 12% in less developed regions), the actual and real amount of support for energy will only be known at the end of negotiations about the next Multiannual Financial Framework.

The last summit that gathered EU leaders on the issue of the EU budget, held on 23 November 2012, didn't bring any consensus – only a decision to postpone final decisions. But what was already visible was the difference between the European Commission original proposals and the proposal presented by the President of the EU Council Herman Van Rompuy.

Proposed budget 2014-2020 for the period 2014-2020	EC proposal (10-2011) (in billion EUR)	Van Rompuy proposal (nov 2012) (in billion EUR)
Overall cohesion Policy Budget	376	320,1
Less developed regions	162.6	161,4
Transition regions	38.9	31,4
More developed regions	53.1	50,8
Cohesion Fund	68.7	66,4
Connecting Europe Facility for transport, energy and ICT	EUR 40bn (with an additional EUR 10 bn ring- fenced inside the Cohesion Fund)	41,2 bn

Sources: REGULATION OF THEEUROPEAN PARLIAMENT AND OF THE COUNCIL on the European Social Fund and repealing Council Regulation (EC) No 1081/2006, COM(2011) 607 final /2, 2011/0268 (COD), p. 5.; http://www.euractiv.com/euro-finance/van-rompuy-tables-950-budget-pro-news-516056

The minimum of 17 billion Euro was an amount estimated according to the European Commission original proposal[47]. It will now be adjusted, following financial distribution to less-developed regions, transition regions, more developed regions and cohesion fund. The final amount might turn out to be less impressive that what was originally expected.

Also regarding the Connecting Europe Facility, it is hard to predict at this stage how much money will be available for energy projects. For this budget item, the figures are also constantly changing. Between a budget proposal presented by the President of the European Council on 14 November 2012[48] and the one presented on 23 November 2012 (ahead of the summittransport envelope went from €29,660 billion to €26,948 billion; telecommunications from €8,323 billion to €7,175 billion and **energy from €8,266 billion to €7,126 billion**.

47 Presentation: “Energy and climate change in cohesion policy 2014-2020”, Open Days 2011, Agnes Kelemen Policy Analyst DG REGIO
48 http://www.euractiv.fr/economie-et-finance/les-propositions-de-van-rompuy-pour-le-budget-2014-2020-17210.html

Energy through the “low-carbon economy” objective

Energy investments will be eligible for support under the priority 4 that is supporting the shift towards low-carbon economy. Put this way, the mechanisms does not seem to be problematic. Yet, the principle and imperative to base the EU economic growth on premises of low-carbon economy it far from being taken for granted in all EU member states. Suffice to say, that for a member state like Poland the entire EU climate and energy policy is seen as an anathema to its coal-based economy. As Thomas Spencer summed up: “Poland was the only country to veto the Commission’s Climate Roadmap in June 2011, which cast uncertainty over the development of climate policy beyond 2020 (…) Poland has likewise indicated its reluctance to consider the policy implications of the Commission's 2050 Energy Roadmap, such as the establishment of post 2020 policy measures for low-carbon energy and emissions reductions (...) Poland is also strongly opposed to short-term moves to strengthen climate policy, such as the withdrawal of surplus allowances from the emissions trading scheme (ETS)”[49]. Now Polish government is even opposing the EU initiative to set post-2020 targets for renewable energy sources[50].

Rather than programming its cohesion funds under “low-carbon” heading in the 2014-2020 period, the Polish government will attempt to negotiate the future cohesion policy for Poland under the principle of “low-emission economy”, a notion much more neutral and more acceptable for Polish authorities. The question that lingers is whether the European Commission will “buy” this manoeuvre? Will it accept Polish proposals to devote the required 12% of ERDF towards low-emission investments? And what will happen if the European Commission insists on decarbonisation objectives? Will Poland get less money overall? And what will happen if other countries (Czech Republic for instance) follow suit?

Challenges ahead in regards to programming of energy investments

Unfortunately, throwing more money (if there will be indeed more money) towards the objective of low-carbon economy will not gurantee automatically expected results. The issue at stake is how the money available will be programmed, managed and effectively spent.

If in Western Europe, transition towards low-carbon economy is a widely accepted imperative[51], energy is not yet so much an issue for new member states. For “catching-up” European economies, the priority goes towards basic infrastructure: roads, railways, basic public services infrastructures etc. For those countries, 12% of all ERDF allocations is way to much for energy, and if they will be able to re-allocate these funds towards other priorities and operational programmes, they won't hesitate to do so. So the challenge for the European Commission is to ensure that the money actually goes to where it should go, and in addition, it goes to genuine and sustainable projects, likely to generate significant results in terms of CO_2 emission reductions.

Also, what is not clear at this stage is how allocations for low-carbon investments will be assigned at sub-national level. Aforementioned 12% and 22% were to be set at each country level. How countries will decide to divide these envelopes to their regions is an open question. Will it depend on how much each region will ask? Or will decision be taken at state level, according to national prerogative? This is a relevant question – if in all other priorities member states and regions already have some significant programming experience, low-carbon economy is a new one and will require new ways of thinking and programming.

One could argue that this is not really an obstacle. 2007-2013 cohesion policy has already

49 “Time for a grand bargain with Poland on energy and climate”, Spencer T, European Energy Review, 8 March 2012, http://www.europeanenergyreview.eu/site/pagina.php?id=3572&zoek=Poland%20veto

50 http://www.euractiv.com/climate-environment/eu-ministers-odds-2030-renewable-news-516415

51 See current discussion on “Energy Transition” in France

introduced funding for renewable energy and energy-efficiency projects. But it is one thing to programme 2,7% of ERDF at a regional level, and another to plan spending of some 22%. During current programming period, it was done in an ad-hoc mode, with some priorities and calls for projects for renewable energy and energy efficiency projects in public facilities and for private companies. Rare are example of countries and regions where programming of energy investments followed a clearly defined and coherent regional energy strategy.

This time around, spending respectively 12% in less developed regions and 22% in more developed regions will require first: knowing regional potential for renewable energy production and energy savings; assessing regional needs in these two fields, and finally imagine how EU regional policy can actually be used to answer these needs (obviously, in areas where market fails and can't deliver expected results, or in areas where innovation needs to be stimulated with public funding). That means, no less, no more, a need for regional energy strategies, prepared either at each region's level or crafted at state level, by Regional Development Ministry. In some countries, the exercise won't be particularly complicated. In Germany, Länders have been dealing with energy issues for the last 20 years now. In France, the Grenelle I and II (Article 68[1]) laws introduce an obligation to realise a Regional Scheme for Climate, Air and Energy (le Schéma régional climat air énergie - SRCAE). The document is coordinated by the prefect in the region and the President of the Regional Council (in dialogue with all involved actors). To establish a SRCAE each region needs to prepare: an inventory of CO2 emissions, an energy assessment, an assessment of renewable energy potential, an assessment of energy savings potential and its possible enhancement, and an assessment of regional air quality. Then, the document specifies a scenario for 2020 (t is coherent with the commitments towards the EU "3x20" objectives and "Factor 4" objectives to achieve in the field of renewables and energy savings) and a climate adaptation scenario. Finally, the SRCAE sets tools for monitoring and evaluation of the plan (environmental, economic and social indicators)[52]. Therefore, it becomes de facto a blueprint for programming of the EU funds in the area of energy and will undoubtedly be used for that purpose by regional authorities in those regions that have already managed to complete the plan.

The challenge of programming energy-related investments will be particularly acute in those regions that a) have absolutely no competencies over the issue of energy (even for questions linked to decentralised energy production and energy-efficiency to be achieved locally), and/or b) have no experience or legal tools to organise adequate energy policy on their territory.

The EU could help those regions in many ways. For instance, for the next programming period, the European Commission "wants national and regional authorities across Europe to draw up **research and innovation strategies for smart specialisation**, so that the EU's Structural Funds can be used more efficiently and synergies between different EU, national and regional policies, as well as public and private investments, can be increased (…) Smart specialisation means strengthening regional innovation systems, maximising knowledge flows and spreading the benefits of innovation throughout the entire regional economy. In the European Commission's proposal for cohesion policy in 2014-2020 it will be a pre-condition for using the European Regional Development Fund (ERDF) in 2014-2020 to support these investments".[53] During the current programming period, some regions have used their Regional Innovation Strategies required by the European Commission[54] to implement regional strategies in the field of energy. The French Region of Nord-Pas-de-Calais for example, inscribed two energy-related initiative in its RSI, namely, establishing an applied research pole "Motors and Electrical Devices for Energy Efficiency" (also partially

52 http://www.rac-f.org/Note-de-position-du-RAC-F-du-CLER
53 "COHESION POLICY 2014-2020 - The European Commission adopted legislative proposals for cohesion policy for 2014-2020 in October 2011. Research and Innovation Strategies for Smart Specialisation". Factsheet
54 http://ec.europa.eu/regional_policy/newsroom/detail.cfm?id=202

financed through regional ERDF)55, and creating a centre for research (pole d'excellence) “Energy2020”56. The trouble with Regional Research and Innovation Strategies for Smart Specialisation (RIS3 strategies) is that they “build on each country/region’s strengths, competitive advantages and potential for excellence”. Yet, no all European regions have particular strengths in the field of energy. So it will definitely be a precious tool for those regions that have already elaborated energy projects and have significant natural or knowledge-based advantages.

Regions could also use initiatives that exist at the EU level and that aren't necessarily linked to the EU regional policy. The Covenant of Mayors is a good illustration. This is “the mainstream European movement involving local and regional authorities, voluntarily committing to increasing energy efficiency and use of renewable energy sources on their territories. By their commitment, Covenant signatories aim to meet and exceed the European Union 20% CO_2 reduction objective by 2020”57. All Covenant signatories engage to prepare a Baseline Emission Inventory and submit, within the year following their signature, a Sustainable Energy Action Plan outlining the key actions they plan to undertake. This SEAP might indeed become a basis for programming spending of EU funds for 2014-2020 period. But here again, although the initiative targets regions, it is mainly designed for European Cities and there are few regions that decided to join in. In addition, signing the Covenant of Mayors is tantamount to commit towards “meeting AND exceeding the European Union 20% CO_2 reduction objective by 2020”. This again, might prove virtually impossible in some European regions which are not entirely in sync with the EU decarbonisation objective (see the region of Silesia in Poland, where its economy and energy sector are still based largely on coal exploitation).

Conclusion:

There is not doubt that the European Union attempts to steer economic development of the EU regions according to the principles of low-carbon economy. One of the tools towards this goal will be a greater share of EU funds for this objective in the 2014-2020 programming period of cohesion policy. Nevertheless, as argued before, putting more money on the table is not enough to ensure all regions will jump on the bandwagon of low-carbon growth. First obstacle is the issue of compatibility between the EU objectives and some regions' growth foundations. Some regions still heavily exploit their fossil energy resources and are reluctant to be told to do otherwise. The second obstacle might be the difficulty with efficient programming and spending of all energy-related resources available. This exercise will require regions to: spent additional human and financial resources to assess their energy-related potential, draw investment plans, target on the most innovative and most region-tailored-made solutions, work in partnerships with all relevant stakeholders in the region (public and private as well as NGOs), find ways to design and use innovative financial instruments, integrate and oversee sustainable urban development plans (that will comprise integrated actions to tackle the economic, environmental, climate and social challenges)58… etc., etc. If all EU regions had these competencies, there would be probably no need for the EU cohesion policy. But clearly it is not the case, and divide between those “who know how to do” and those “who don’t” still runs between “old” and “new” member states of the EU. Even EU-funded projects for exchange of good practices in the field of regional energy planning do not deliver expected results as for filling the gap, as they mainly gather member states from the “EU-15”.

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55 http://www.pole-medee.com/
56 http://www.energie2020.fr
57 http://www.conventiondesmaires.eu/about/covenant-of-mayors_en.html
58 According to the EC legislative proposal, those actions will be financed with at least 5% of ERDF resources. Source - Presentation: “Energy and climate change in cohesion policy 2014-2020”, Open Days 2011, Agnes Kelemen Policy Analyst DG REGIO

The final shape of the EU cohesion policy, and its energy components will depend on an agreement between the European Parliament and the European Council, the other EU co-legislator. The Cohesion Policy package is still to be adopted by the end of this year. Once adopted, a series of official discussions between, on the one hand, national, regional, local authorities and all concerned stakeholders, and on the other hand, the European Commission will be held. They will tackle the national and regional strategies for the use of Structural Funds59. Let's hope some ways to help the EU regions to better use EU funding for energy will also be included in those discussions.

59 http://www.eukn.org/News/2012/EP_vote_on_Cohesion_Policy_Yes_to_EU_support_to_adaptation_of_housing_for_elderly_tenants