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How EU Cohesion Policy is helping to tackle the challenges of **CLIMATE CHANGE** and **ENERGY SECURITY**

A paper by the European Commission's
Directorate-General for Regional and Urban Policy

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FOREWORD



As I near the end of my mandate, I am feeling a mixture of emotions . I am immensely proud of the reform of Cohesion Policy that we have managed to bring about, but I am also sad to leave an area which has engaged and challenged me so fully for five years which as we all know in politics, is a long time.

‘OPEN DAYS - the European week of regions and cities’ is a chance to contemplate the challenges ahead, to reflect on our progress, compare good practice and occasionally to celebrate our achievements. When it comes to the reform we have plenty of reasons to cast modesty aside - briefly . We have transformed this policy into a genuine investment tool: and I believe in the future it will prove itself indispensable, resilient and robust when it comes to bringing about growth and creating new jobs in Europe. Supporting the low-carbon economy and fostering sustainable development is of course an absolutely central part of this.

Which is why I think one of the most significant achievements of the reform has been the introduction of mandatory targets for investments in energy efficiency and renewables.

Already on the basis of what we have seen in the Partnership Agreements from Member States on how they plan to spend the European Structural and Investment Funds, I am immensely encouraged. Many countries have put particular emphasis on energy efficiency and developing renewable energy sources since the economic benefits are clear, especially in the current climate. As a result, we now have some €38 billion allocated by Member States towards supporting the transition to a low-carbon and climate resilient economy. This is almost double what we have for the 2007-2013 period and it is expected to rise even more. I hope you will find this paper from colleagues in DG Regional and Urban Policy a helpful and thought provoking summary. But to inject a note of caution - we need to translate this theory into practice. The commitment and the strategy are there - now it's time to get the programmes and the projects off the ground and make the reform into a reality where people will soon feel the benefits.

A handwritten signature in black ink, appearing to read 'J. Hahn'.

Johannes Hahn
European Commissioner
for Regional Policy

COHESION POLICY 2014-2020 SUPPORTING THE SHIFT TOWARDS A LOW-CARBON ECONOMY

» Transition to a low-carbon and energy-secure economy on top of the EU agenda

Preventing climate change is a strategic priority for the EU. Europe is working hard to cut its greenhouse gas emissions substantially while encouraging other nations and regions to do likewise.

The transition to a low-carbon and energy-secure economy requires significant investments in Europe. These investments have great potential for driving economic growth and jobs and can positively influence Europe's competitiveness.

To meet the EU's 2020 climate and energy targets for reduced greenhouse gas emissions (20%), an increased share of renewable energy (20%) and increased energy efficiency (20%), a major acceleration of investments is needed in the period up to 2020.

While the EU is making progress towards meeting its targets for 2020, an integrated policy framework for the period up to 2030 is needed to ensure regulatory certainty for investors and a coordinated approach among Member States. The 2030 policy framework for climate and energy proposed by the Commission seeks to drive continued progress towards a low-carbon economy with new targets for reduced greenhouse gas emissions (40%), an increased share of renewable energy (27%) and increased energy efficiency (30%). It also aims at building a competitive and secure energy system that ensures affordable energy for all consumers, increases the security of the EU's energy supplies, reduces our dependence on energy imports and creates new opportunities for growth and jobs.

Moreover, in response to the political crisis in Ukraine and the overall importance of a stable and abundant supply of energy for the EU's citizens and businesses, the Commission proposed an EU energy security strategy in May 2014, based on an in-depth study of Member States' energy dependence.

The European Council has agreed to take a final decision on the 2030 climate and energy framework, including on further measures aimed at enhancing Europe's energy security and on specific 2030 interconnection objectives, in October 2014.

» Estimated €38 billion for Cohesion Policy low-carbon economy investments 2014-2020

Under the reform of EU Cohesion Policy agreed at the end of 2013, all Member States are required to allocate significant shares of Cohesion Policy funding to support the shift towards a low-carbon economy, due to the immensity of the challenge in the area and the important benefits of such investments in terms of regional development, competitiveness, growth and jobs, as well as to alleviate energy poverty.

For the first time, the rules on the European Regional Development Fund (ERDF) for 2014-2020 stipulate a mandatory minimum spending for the low-carbon economy: 20% of national ERDF resources in more developed regions, 15% in transition regions and 12%¹ in less developed regions. While ring fencing also exists for the other key priorities of SME support, ICT and research and innovation, mandatory minimum allocations were only applied to the low carbon economy.

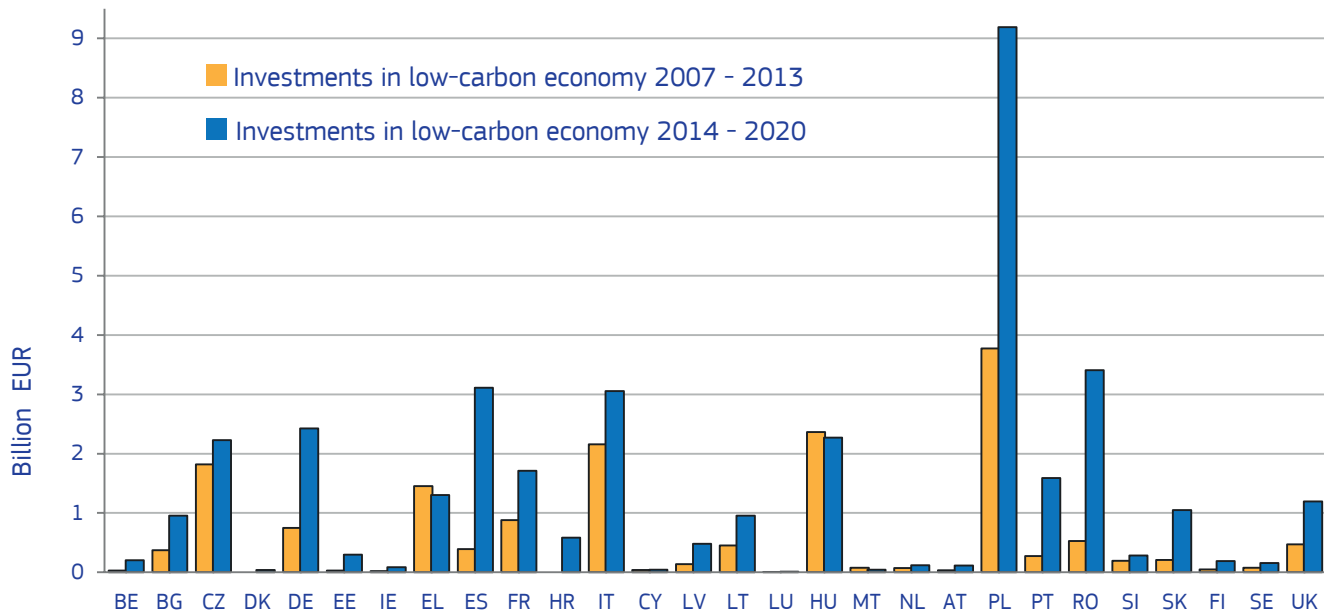
Based on preliminary data from analysis of the draft Partnership Agreements from Member States, some €38 billion from the ERDF and the Cohesion Fund (CF) will be allocated to these objectives. This represents more than a doubling of funding in this area compared to the 2007-2013 period (see Figure 1). For the EU as a whole, this also goes well beyond the minimum allocations required by the new regulatory framework, approaching almost 50% more than required, which confirms the great importance that Member States attach to investments in this area.

Support for the low-carbon economy includes investments in energy efficiency (in public infrastructure, housing and enterprises), renewable energy production and use, smart distribution grids and sustainable urban mobility, as well as research and innovation in these areas, in complementarity with Horizon 2020 (see Annex).

Therefore, the Cohesion Policy investments will not only be a crucial tool for helping Member States achieve the Europe 2020 objectives, including the headline targets on climate and energy, but also for contributing to security of energy supply, as highlighted in the Commission Communication on the European Energy Security Strategy.

¹ Increased to 15% if Cohesion Fund resources are also allocated to investments in this area.

Figure 1: Cohesion policy allocations to low-carbon economy investments 2014-2020 compared to 2007-2013¹



» Additional support for smart energy infrastructure

The main instrument for energy infrastructure investments at EU level is the Connecting Europe Facility, which will allocate €5.85 billion for improving the trans-European energy infrastructure (“TEN-E”) for the period 2014-20. However, Cohesion Policy also supports investments in infrastructure for smart energy distribution, storage and transmission systems, mainly in less developed regions.

This can cover investments related to both electricity and gas provided that they contribute to the development of smart systems and are complementary to investments for supporting the shift towards a low-carbon economy (see Annex). Preliminary estimates suggest that around €2 billion from the ERDF are expected to be allocated to such investments, making an important contribution to security of supply.

» Attracting private investment through EU funding

EU Cohesion Policy funding will be complemented by national public and private co-financing. Member

¹ The figure shows the ERDF and CF amounts allocated in the Partnership Agreements (PAs) to low-carbon economy investments 2014-2020, compared to an estimate of similar allocations in 2007-2013. The following PAs are not yet adopted (as of 17.9.2014) and currently under discussion, meaning that the indications in Figure 1 are preliminary and that certain aspects might change: BE, IE, ES, HR, IT, LU, MT, AT, SI, FI, SE, UK.

States have expressed their political commitment to allow financial instruments, such as loans, guarantees or venture capital, to play a more important role over 2014-2020. The use of financial instruments in Cohesion Policy has been steadily increasing, by ten times from the 2000-2006 to the 2007-2013 period. In the ongoing discussions on the programmes, Member States should consider the advantages of using financial instruments as a potentially more effective and sustainable form of support for energy investments through the use of regional, national and/or EU financial instruments. In fact this is a sector where financial instruments can be particularly appropriate – and successful.

Grants could be used as a complement to support, for example, deep renovations of buildings going beyond minimum energy performance requirements, to help develop innovative technologies or to address social issues exacerbated by the crisis in many regions, such as fuel poverty.

» Strategic planning and determined implementation essential for success

Under the reformed Cohesion Policy, investments in the area of energy will be much better aligned with national strategies than ever before. Indeed it is a pre-condition that they are planned according to the National Energy Efficiency Action Plans and the National Renewable Energy Action Plans. All relevant Country-Specific Recommendations under the European Semester also need to be taken into account

for the planning of Cohesion Policy investments. This kind of strategic planning means that the allocations for various types of energy investments will differ between Member States, reflecting differences in terms of total volume of funds available, national needs and priorities.

Once all the Cohesion Policy programmes are in place, likely in the first quarter of 2015, the development and implementation of high quality projects in the area of energy will be crucial. The continued involvement of local, regional and national energy authorities and stakeholders will be needed for this. The EU's macro-regional strategies (Baltic Sea, Danube and Adriatic-Ionian), as well as European Territorial Cooperation can also play an important role in this respect – by further promoting and supporting energy issues, with energy security and efficiency as key priorities.

ANNEX - COHESION POLICY INVESTMENT PRIORITIES IN THE AREA OF ENERGY 2014-2020

According to the respective fund-specific regulations, the European Regional Development Fund (ERDF) and the Cohesion Fund (CF) can support the following investment priorities in the area of energy:

» “Thematic Objective 4”

(4) supporting the shift towards a low-carbon economy in all sectors through:

- promoting the production and distribution of energy derived from renewable sources;
- promoting energy efficiency and renewable energy use in enterprises;
- supporting energy efficiency, smart energy management and renewable energy use in public infrastructures, including in public buildings, and in the housing sector;
- developing and implementing smart distribution systems at low and medium voltage levels;
- promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multi-modal urban mobility and mitigation-relevant adaptation measures;
- promoting research in, innovation in and adoption of low-carbon technologies; (Note: only ERDF; not CF)
- promoting the use of high-efficiency co-generation of heat and power based on useful heat demand;

» “Thematic Objective 7”

(7) promoting sustainable transport and removing bottlenecks in key network infrastructures through:

...

- improving energy efficiency and security of supply through the development of smart energy distribution, storage and transmission systems and through the integration of distributed generation from renewable sources; (Note: only ERDF; not CF)

The ERDF Regulation for 2014-2020 envisages ring-fencing of ERDF funding for the thematic objectives on RTDI, ICT, SME competitiveness and the low-carbon economy. For low-carbon (4 (a) to 4 (g) in the list above), a minimum of 20% of national ERDF resources in more developed regions, a minimum of 15% in transition regions and a minimum of 12%² in less developed regions.

² Increased to 15% if CF resources are also allocated to investments in this area.

