A. Recent EU policies in response to the Paris Agreement

The European Union (EU) is one of the most efficient major economies in tackling greenhouse gas (GHG) emissions and it is on course to achieve its emission reduction target for 2020. In 2018, EU GHG emissions were down by 23% from the 1990 levels, while the EU target under the 2007 Kyoto Protocol was 20%. Between 1990 and 2018, combined GDP in the EU grew by 61%, proving that the decoupling of economic activity and GHG emissions reduction is possible. However, much more effort is needed in the EU and worldwide to be in line with the Paris Agreement target to limit global warming to 2°C, let alone to 1.5°C by the end of this century. Prior to the 2015 climate conference in Paris, the EU introduced the target of reducing its GHG emissions by 40% by 2030 compared to 1990 levels. In order to meet its commitments under the Paris Agreement, the EU adopted legislation relating to many different economic activities before the end of the parliamentary term in May 2019. GHG emissions from most sectors (not included in the EU Emission Trading System-ETS), such as transport, buildings, agriculture and waste are covered by the Effort Sharing Regulation which sets national targets to be achieved by 2030. Moreover, for the first time, the Governance Regulation implements a transparent governance process to track progress towards the objectives of the EU Energy Union and Climate Action, including monitoring and reporting rules. EU Member States are obliged to adopt integrated National Climate and Energy Plans (NECPs) for the 2021-2030 period.

The Paris Agreement requests that the signatory Parties this year update their nationally determined contributions (NDCs) by increasing their level of ambition and also define their long-term greenhouse gas (GHG) emissions reduction target for 2050. The European Parliament called in its resolution of 25 October 2018 for an update of the EU NDC to a target of 55% domestic GHG emissions reduction by 2030 compared with 1990 levels and the adoption of a long-term strategy for net-zero emissions by 2050.

On 28 November 2019, the EP declared a climate emergency in Europe and urged all EU countries to commit to net zero greenhouse gas emissions by 2050. The new Commission President announced under the European Green Deal on 11 December 2018, the intention to increase the 2030 target to at least 50% emission reductions and even to 55%, if international negotiations lead to a higher ambition level from other major emitters by 2021. Negotiations on relevant proposals in the years to come will determine the way the new strategy is translated into concrete measures.
At the European Council on 12 December 2019, the EU Member States adopted a 2050 carbon neutrality target for the EU, with the exception of Poland which, although supporting the 2050 goal, was unable to commit to implement the objective. The adoption of the EU long-term climate-neutrality target, together with an ambitious GHG emissions reduction target for 2030, is of paramount importance if the EU wants to lead by example in the fight against climate change.

B. Sustainability goals and the European Semester

The European Commission has proposed to integrate the UN Sustainable Development Goals (SDGs) into the European Semester for economic policy making. According to the Annual Sustainable Growth Strategy 2020, with a stronger focus on climate and environmental policies, the European Semester would be reinforced as an encompassing tool for economic and employment policy. The Commission stressed that the growth opportunities arising from a stronger focus on environmental sustainability are central to Europe’s economic agenda. The Semester can provide specific guidance to Member States on where structural reforms and investment towards a more sustainable and competitive economic model are most needed. It can also help Member States to identify and address key trade-offs, for instance by tackling the social impacts of rising energy prices through adequate social and fiscal policies. Europe needs to act decisively in areas like the circular economy, renewable energy, energy-efficient buildings and low-emission transport. As the EU’s industry is already one of the most energy-efficient in the world, the Commission argues that Europe needs to capitalise on this and provide additional incentives for businesses and investors to enable Member States attain ambitious climate objectives. Support for the people, sectors and regions, which are most affected by the transformation, needs to be factored into the reforms. Further deepening cohesion policy’s emphasis on green and digital investment will contribute to the strategy.

The Commission recently announced it had signed with the International Monetary Fund a new Financial Framework Partnership Agreement that will boost their cooperation to tackle key challenges including climate change, and help countries achieve the Sustainable Development Goals. It had previously launched, together with the relevant authorities from Argentina, Canada, Chile, China, India, Kenya and Morocco, the International Platform on Sustainable Finance (IPSF).

C. The budgetary and financing dimension

Although the EU’s General Budget only represents around 2% of overall public spending in the EU, it has a proven track record of supporting climate action in the EU and beyond. The EU budget will also be used to leverage resources needed to attain the ambitious climate objectives of the next Multiannual Financial Framework (MFF) and the European Green Deal.

A few expenditure programmes, notably LIFE+, and a number of dedicated strands in areas such as research, nature protection or development cooperation policies, provide grant support and co-financing for climate measures. The concept of ‘mainstreaming’ was introduced under the MFF 2014-2020 to make the impact of budgetary measures deeper and more comprehensive. Climate considerations have been integrated more systematically across all relevant spending programmes and throughout the policy and spending cycles. Climate action objectives and relevant performance measures have also been included in the relevant legal bases of the spending instruments.

Climate-related expenditure is tracked according to a methodology using “Rio-Markers” which also capture indirect or partial benefits for climate mitigation and adaptation of programmes in policy areas such as energy, agriculture or rural development. Setting an overall expenditure target of 20% of the MFF is a powerful communication tool and an indicator of the effectiveness of the mainstreaming approach. It can also serve to focus the efforts of programme managers and the budget authorities by providing a strategic rationale for budgetary amendments in the course of budget execution. This was the case most recently in
the annual budget procedure 2020 where the European Parliament’s main priority was to focus
reinforcements on climate-relevant budget lines. The Commission reports on the methodology and on
progress in their annual budgetary documents.

For the MFF 2021-2027, the targeted share of climate-relevant expenditure is set to go up, with the
Commission proposing an increase to 25%. The European Parliament in its resolutions of 10 October 2019,
and of 15 January 2020 reaffirms its unambiguous support for the principle of climate mainstreaming but
demands a further quantum leap in political and financial efforts in order to achieve the climate objectives.

The European Green Deal identified the EU Budget and related investments as key instruments for achieving
decarbonisation of the economy by 2050 and generating the financial and political leverage necessary for
the far reaching transformations necessitated by the Paris Agreement.

Besides providing direct grant support, the EU budget has been used increasingly to underpin other types
of financial interventions. This is demonstrated in the proposed European Green Deal Investment Plan and
in particular the Just Transition Mechanism. Its first pillar, the Just Transition Fund would rely on grant
support from the EU budget to implement measures under shared management. With EUR 7.5 billion from
the EU budget, funding from the European Structural and Investment Funds and additional national
co-financing, a total of EUR 30 to 50 billion is expected to be mobilised. The second pillar under the InvestEU
programme would attract EUR 45 billion in investments, using EU budget seed money to crowd in private
capital in particular for sustainable energy projects. The third pillar provides fora public sector loan facility
with the European Investment Bank offering financial products backed by the EU budget.

The European Green Deal communication explicitly highlights that the hitherto underexploited revenue
side of the budget can also contribute to achieving decarbonisation objectives. The introduction of
categories of ‘own resources’ more closely linked to climate or environmental policies can extend the
mainstreaming principle to the income side of the budget and generate incentives for Member States,
economic actors and consumers. The proposal for the Own Resources Decision of 2 May 2018 provides for
the introduction of two types of green own resources: a share of the proceeds of the EU Emissions Trading
System and a national contribution based on non-recycled plastic packaging waste. The European
Parliament endorsed this general approach. Its resolution of 7 November 2018 even suggests extending the
list of potential new own resources, for example the revenue from a Carbon Border Adjustment Mechanism.

As the EU is committed to becoming the first climate-neutral economy in the world by 2050, significant
investment will be required from both the EU and the national public sectors, as well as the private sector.
The European Investment Bank (EIB) has changed its lending strategy with the launch of its ambitious new
Climate Strategy and Energy Lending Policy in November 2019. The EIB is the first multilateral bank that has
formally decided to cancel financing for new fossil energy projects, including gas, from the end of 2021. It
will align all its activities with the objectives of the Paris Agreement from the end of 2020, with total climate
activities expected to reach 50% by 2025. It is committed to contributing to the target of 1,000 billion euros
in investments qualified as sustainable by 2030. Recently, the EIB also confirmed that it will contribute to the
new European Green Deal and to the Just Transition Fund as a climate bank with a continuing strong focus
on innovation, SMEs and cohesion. The Sustainable Europe Investment Plan – presented on 14 January 2020
– will aim to mobilise public investment and help to unlock private funds through EU financial instruments,
notably InvestEU, which would lead to at least €1 trillion in investment.
D. Social and employment policies

Climate change will have a profound impact on the way citizens live and work. The EU can lead the way by developing policies that will enable society to adapt to climate change and to mitigate the impact of climate change on citizens’ lives.

The Commission communication, "A Clean Planet for All" stressed that climate change risks and the economic impact as well as the policy responses required, will affect different regions, sectors, workers and population groups in different ways. Social and environmental inequalities and the distributional impacts of climate action must be taken into account to ensure the burden is fairly distributed. The European Green Deal, the Just Transition Mechanism and the Roadmap on Social Europe, set out the policy measures that will need to be taken to help the EU achieve its climate objectives while mitigating the social impacts.

A Just Transition Fund will help regions and sectors facing the greatest challenges in adapting to climate change. It will provide funding to help create jobs in new economic sectors, provide access to re-skilling programmes, and fund investments in the clean energy transition, for example in energy efficiency. In seeking to exploit the job creation potential of green growth, the proposals on an EU industrial strategy and an SME strategy (both Q1 2020) will at the same time maintain a strong social component.

The proposal for a new ESF+ will provide increased funding for reskilling and upskilling of the workforce to adapt to the digital and green transition. As part of the Roadmap on Social Europe, the Commission will also propose an updated Skills Agenda (Q1 2020) and an updated Digital Education Action Plan (Q2 2020). A new Youth Guarantee (Q2 2020) will support young people in getting work experience and developing skills, particularly those relevant to the low-carbon and digital transitions.

Achieving greater energy efficiency and encouraging the switch to renewables while at the same time ensuring that this does not place too great a burden on the less well-off in society will be one of the challenges. Financial support for households will be available under InvestEU to help meet the costs of renovating homes for more energy efficiency. The lower energy bills that result will help to address the issue of energy poverty but the issue of energy poverty will need to be taken into account in carbon-pricing and taxation models too. Here, the Commission intends to provide guidance to the Member States.

Increased ESF+ funding is also proposed to support capacity-building for the social partners in order to build on Europe's strong tradition of worker's rights and social dialogue and ensure that the changes required to make the transition to a low-carbon economy are handled successfully.

Some framing questions for the debate

- What is the best way to get the all major economic regions to commit and undertake effective policies for combating climate change?
- What does climate change mean for EU economic and social policies?
- How can the fight against climate change be best financed? What role for the private sector?
- How can the EU budget and Member States' national budgets be used in a complementary way to enhance the added value and avoid inefficiencies of financing climate action?
- What are the main elements needed in carbon-pricing policies in order to be both effective in influencing behaviour and at the same time respect the principle of fairness?
- Under the next MFF, which programmes and which types of action are best suited to enhance the effectiveness of the climate-mainstreaming approach?

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