



# **Beyond AAUs: climate finance opportunities within the EU**

- EU Climate and Energy Package is reducing demand for the AAUs post-2012 – but continuous need for low-carbon investment
- What could be the potential sources of EU funding for low-carbon development in the CEE?
- Could existing domestic institutional structures be applied to distributing the EU funds in the future?
- Specific case of GIS as an existing domestic institutional structure for low-carbon development



# Agenda

**Anna Korppoo, FIIA**, Reforming the EU Budget towards Low-Carbon Development in CEE

**Tomasz Chruszczow, Poland**, Contribution of the GIS to low carbon development in Poland

**Pavel Zámyslický, Czech Republic**, Contribution of the GIS to low carbon development in the Czech Republic

**Olga Gassan-zade, Point Carbon**, GIS schemes to-date: priorities and future needs for low carbon development

**Discussion**



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# **Reforming the EU Budget towards Low-Carbon Development in CEE:**

## **Issues and Context**

Dr Anna Korppoo, The Finnish Institute of International Affairs

Beyond AAUs: Climate Finance Within the EU, 05.08.2010



# Introduction and Context

*“It will be necessary to mobilise the public and private financial resources to enhance emission reduction without jeopardising economic growth. The EU's cohesion policy is an important instrument in this regard” European Commission*

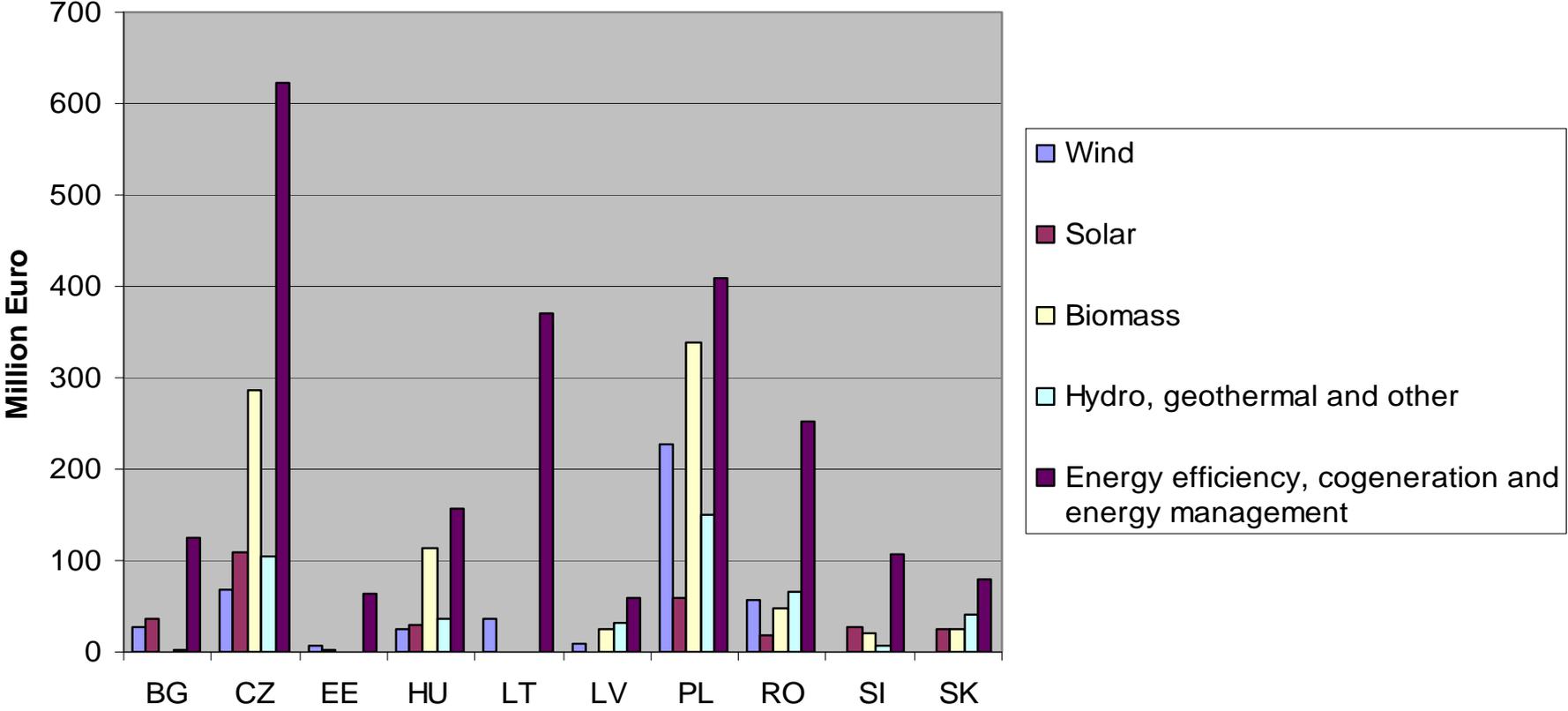
- **The budget is likely to be a key to building agreement on the further development of EU climate and energy policy, especially among CEE member states**
- The EU is faced with a number of new challenges which imply the need for budget reform
  - The present financial perspective (2008-2013) negotiated **before** climate and energy became high priorities
  - The sovereign debt crisis makes an increase in the budget's size unlikely – also challenges for co-financing from national budgets
  - The liquidity crisis increases the importance of the budget's leverage effect on private capital
- **Reforming the EU budget is a question of finding the maximum value added for EU climate, energy and cohesion goals, in times of fiscal constraint and inhibited liquidity**



## Sketching Status Quo: Climate, EU Fiscal Instruments and the CEE Member States

- Cohesion policy financing for the current financial perspective is projected at ca. €344 billion; just €10.8 billion will be spent on energy
  - EU cohesion policy interventions are primarily targeted towards transport and telecommunications
- Of the EIB's loans to energy 2002-2008 about 16% went to renewables; of the €1.86 billion spent on energy in CEE member states 2004-2008 just €25 million went to renewables
  - Absorptive capacity in clean technology generally lower than average: nature of the sector *and* policy preferences
- Considerable scope for the common agricultural policy (CAP) to contribute to EU climate goals by supporting RD&D bio sequestration and energy generation: consensus in 2008/9 budget review

### Cohesion Policy Expenditure on Clean Generation and Energy Management, 2007-2013



Source: DG Regio, Analysis of data on priority themes in line with Community Strategic Guidelines



# Budget Reform

- The big issues of budget reform:
  - Size of budget is unlikely to change, although pressure from net payers
  - New policy priorities probably inserted into existing headlines; radical reform an unlikely scenario
  - Radical reform of the own resources is also unlikely, although auction revenues could be used as co-financing
- Making the budget fit for the climate and energy challenges:
  - Climate proofing of existing policy
  - Strengthening low-carbon focus of structural and cohesion financing in CEE
  - Reform of CAP: from subsidies towards rural development to support e.g. bio sequestration and energy generation, and RD&D for e.g. the biomass platform of the Strategic Energy Technology plan



# What (More) Could the EU Cohesion Policy Do?

1. **Support residential energy efficiency improvements in CEE member states by increasing the threshold of the Regional Development Fund and fostering innovative PPPs**
  - e.g. KredEx Renovation Loan for Apartment Buildings
2. **Support clean tech asset financing by providing credit lines to CFIs to bridge the debt-equity or address simple lack of liquidity**
  - e.g. Rural Energy for America Program
  - e.g. the FIDEME public private mezzanine fund for renewables in France
3. **Support enabling infrastructure in the energy sector, e.g. grid upgrade; integration of renewables, and development of the internal energy market**
  - e.g. European Energy Program for Recovery and the debate around the future EU Instrument for Energy Security and Infrastructure
  - e.g. future Polish GIS?



# Linking to existing carbon finance mechanisms, GIS?

*“The EU could continue to encourage Member States, regions and cities to step up low-carbon investment by directing a greater volume of cohesion policy funding towards green investments...It would also provide an alternative to the use of surplus Assigned Amount Units (AAUs) as a source of funding...”. EU Commission, 2010, COM(2010) 265.*

- Existing carbon financing mechanisms including GIS could provide an institutional framework for the deployment of EU budgetary resources to support the low carbon transition
- As one existing institutional structure, GIS could provide lessons learned