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Briefing Cohesion Policy post 2020

Non-eligible activities; Article 6

Introduction

With Article 6 of the draft Regulation on the European Fund for Regional Development and the Cohesion Fund (ERDF/CF-Regulation), the EU Commission (COM) submitted far-reaching proposals for the exclusion of funding areas from Cohesion Policy post 2020. According to the Impact Assessment (p. 41), these non-eligible activities include areas with a poor cost-benefit ratio or which contradict EU political priorities. The concrete design and wording of Article 6 is currently discussed intensely in the European Parliament (EP), within the Member States and the Council, different committees (overview EUR-LEX) as well as among NGOs. This briefing looks at the debate from different perspectives and provides information for assessment.

Brief outline of the proposals

In comparison to the current funding period (Article 3 of Regulation 1301/2013), Article 6 of the proposal of the ERDF Regulation contains further restrictions of the ERDF's areas of intervention. In the upcoming funding period, support shall not be provided, for example, in the following areas: (e) investment in airport infrastructure except for outermost regions; (f) investment in disposal of waste in landfill; (g) investment in facilities for the treatment of residual waste; (h) investment related to production, processing, distribution, storage or combustion of fossil fuels, with the exception of investment related to clean vehicles as defined in Article 4 of Directive 2009/33/EC of the European Parliament and of the Council; (j) and rolling stock for rail transport.

Perspectives and criteria for assessment of the proposals

Environmentally harmful subsidies

The EU has put a reform of Environmentally Harmful Subsidies (EHS), including those for fossil fuels, on the political agenda for several years with the EP as a front runner (2013/2135(INI)). EHS comprise a double burden on the budget: firstly, as excess expenditure by the state and loss of tax revenue; secondly due to the increased damage to the environment and health.

The phasing-out of fossil fuel subsidies is reflected in various EU policy strategies and processes such as the Europe 2020 Strategy, the 7th Environment Action Programme, the European Semester process, a 2010 Council decision on support for closing coal mines and the 'EU 2030 Energy and Climate' governance framework. According to Article 2 of the Paris Agreement finance flows have to be made consistent with a pathway towards low greenhouse gas emissions. For the next Multiannual Financial Framework (MFF) post 2020 the introduction of the general principle that all EU expenditures should be consistent with Paris Agreement objectives is under discussion (point 20 of the MFF draft negotiation box).

The revised legislative framework on waste has entered into force in July 2018 and sets targets for the reduction of landfilling and the increase of recycling rates for municipal waste. With regard to incineration, the 2017 Communication „The role of waste-to-energy in the circular economy“ advises Member States to gradually phase-out public support for the recovery of energy from municipal waste. However, treatment of residual (as well as hazardous) waste by incineration or mechanical biological measures is essential before landfilling to destroy harmful substances and to avoid the creation and discharge of landfill gas harmful for the climate. Such treatment capacities are insufficient in some regions.

Though the political goal to phase out EHS is quite clear, the actual implementation is difficult and often lacks concrete entry points. The upcoming EU-Cohesion Policy is such an entry point. With a budget of €373 billion for 2021 - 2027, the future Cohesion Policy will be the biggest investment policy of the EU, accounting for 30 % of the total EU budget and covering a long period of seven years.

(Carbon) lock-in effects

Carbon lock-in refers to the self-perpetuating inertia created by investments into large fossil fuel-based energy systems that inhibit public and private efforts to introduce alternative energy technologies on a longer term. Technological lock-in will hinder the adaptation and modernization of current energy infrastructure in order to meet future needs. For example, investments in fossil fuels such as gas infrastructures with a long service life will impede the transition to a climate-friendly energy supply for decades. The concept of lock-in effects is also relevant for other areas and infrastructures, such as waste management or airports. I.e. an expansion of landfills or incineration capacity can hamper the transition into a recycling-focused circular economy. Thus, lock in effects resulting from investments supported by public funding as well as EHS are a problem for both the ecological and the economic dimension of sustainability.

Simplification

Simplification of EU-Cohesion Policy is a widely accepted policy goal and one of the key objectives for the current reform. Therefore, the regulation of non-eligible activities in Art. 6 should be as simple, short and clear as possible; it should not leave room for interpretation or give reason for further studies of different legal texts. Exemptions from principally non-eligible activities bear the risk of excessively far-reaching or incorrect interpretations and loopholes. Above all, they should not lead to further monitoring and audit efforts or reporting obligations. Thus, exceptions from non-eligible activities under Art. 6 should be restricted to well-founded and clearly defined criteria. This also applies to exceptions for environmental reasons.

Coherence

The non-eligible activities of EU-Cohesion Policy must be coherent with the overarching strategies and political priorities of the EU, such as the transition to a highly energy efficient and decarbonised European economy with the long-term objective of greenhouse gas neutrality and the establishment of a circular economy. Furthermore, the coherence of the ERDF/CF Regulation with the Common Provision Regulation (CPR, setting the general, overarching rules for EU-Cohesion Policy) must be ensured, which defines the guiding principles of how EU funds should be spent. According to the first reading vote of the EP, the CPR should contain a provision to exclude fossil fuels from funding (Amendment 81). Furthermore coherence implies that no activities should be eligible that contradict the Political Objective 2 defined in the CPR, that is “a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management”.

Sustainability Transitions

The necessity for fundamental changes towards sustainability in the particularly relevant sectors of energy, transport, buildings and waste (as well as food) is widely accepted in the EU and must be put into practice. EU-Cohesion policy should support these transformation processes rather than proceed a business as usual approach. The design of the non-eligible activities (and their exceptions) in Art. 6 ERDF/CF Regulation should contribute to this sustainability transition process and help to direct the scarce European Funds into the most sustainable and, under sustainability aspects, most suitable areas. This will only occur if the ERDF/CF Regulation will exclude investments in areas with only short-term benefits but little or no benefits in the long term. Such a focus on a sustainable development path could also bring about changes for the environmental funding areas and lead to a situation where end-of-pipe environmental solutions is given less weight in comparison to precautionary environmental protection and long-term sustainable solutions or where highly efficient energy measures get preference above less ambitious measures (the latter sometimes also leading to lock-in effects).

Economic considerations / poor value for money

There are also important economic reasons for the exclusion of funding areas. As already described for the EHS and the lock-in effects, the two dimensions of economic efficiency and ecological effectiveness usually go hand in hand in the long term. This also applies to the funding area "Airports / Airport infrastructure", which shall also be excluded from funding according to the proposals of the COM. The COM argues above all with the lack of economic performance in this funding area. In its special report "[EU-funded airport infrastructures](#)" the European Court of Auditors has drawn the overall conclusion that the EU funded investments in airports produced poor value for money as well.

Political Priorities

Last not least, the question of which areas should be excluded from ERDF/CF funding should be answered according to political priorities, as the COM itself has stated in its Impact Assessment. This mirrors the guiding principle that cohesion money should only be spent on projects with an added value. Since climate protection is high on the political agenda as well as in the public debate, it seems consistent to exclude fossil fuels, having a negative climate impact, from funding.

Conclusions

Taking the outlined perspectives and criteria into account, the proposal put forward by the EU Commission on Article 6 ERDF and Cohesion Fund Regulation to exclude certain areas from cohesion funding meets these very well. Article 6 of the Commission proposal is likely to support the reduction of EHS, avoid lock-in effects, contribute to transitions towards sustainability and support the implementation of agreed central priorities of the EU in the field of climate protection and circular economy. The COM's proposal seems advantageous from both an ecological and an economic point of view. At the same time, it foresees a minimum of exceptions, is easy to understand and best meets the demand for simplification.

The advantages of the COM proposal become particularly clear for the fossil fuels sector. Taking a consistent approach which sets clear rules and is easy to implement, it contains a clear ban of fossil fuels from funding. Exceptions from the proposed exclusion list, particularly if not precisely drafted and clearly and restrictively defined, would open the door for substantial investments in fossil fuels especially in the area of gas / gas infrastructures. Thereby they would increase the risk of lock-in effects and hinder the transition to a sustainable energy supply required to achieve EU energy and climate objectives for decades.

Further Reading

Comments on the proposals

Bankwatch (2019): [EU Parliament shirks responsibility for climate action in future funding of Europe's most needy regions](#)

COGEN Europe et. al (2018): [Joint statement on the European Commission's legislative proposal on the European Regional Development Fund \(ERDF\) and on the Cohesion Fund 2021-2027](#)

E3G (2018): [Sectoral legislation in the post-2020 EU budget: ensuring effective climate spending](#)

Euroactive (2019): [Umweltverbände „sehr enttäuscht“ über neue EFRE-Verordnung](#)

Euroactive (2019): [European Parliament votes for much greener cohesion policy](#)

FEAD (2018): [FEAD position on EC proposal on the European Regional Development Fund and on the Cohesion Funds 2021 - 2027](#)

Krehl, Constanze (2019): [Cohesion Policy can make a major contribution to achieving the EU's climate priorities](#)

SolarHeatEurope (2018): [ERDF and Cohesion Fund: Putting Renewable Energy Sources at the centre](#)

Trilling, Markus (2018): [What potential of ERDF and Cohesion Policy to promote the transition to renewable heating and cooling?](#)

Zero Waste Europe (2018): [Opinion on the Commission's legislative proposals on the Cohesion Funds post-2020. Policy briefing](#)

www.caneurope.org/publications/press-releases/1726-future-eu-funds-for-the-regions-set-to-become-climate-proof

<https://zerowasteeurope.eu/2018/10/envi-committee-cut-incineration-funding/>

Environmentally harmful subsidies

CAN & ODI (2017): [Phase-out 2020. Monitoring Europe's fossil fuel subsidies.](#)

European Parliament: (2017): [Fossil Fuel Subsidies. In-depth Analysis for the ENVI Committee.](#)

Rosenstock, Manfred (2016): [Tackling Environmentally-harmful Subsidies. Best practices in the Member States.](#) Expert Group Greening the European Semester

Umweltbundesamt (2014): [Environmentally harmful subsidies in Germany. Technical brochure. Updated Edition 2014](#)

ec.europa.eu/environment/efe/themes/phasing-out-environmentally-damaging-subsidies_en

www.umweltbundesamt.de/en/environmentally-harmful-subsidies#textpart-1

Lock-in-effects

Euroactive (2019): Academic: Oil and gas boilers should be banned across Europe by 2030

Sustainability transitions

EEA (2017): Perspectives on transitions to sustainability. EEA Report No 25/2017

Bruyninckx, Dr. Hans (2017): Europe's developing transitions agenda: a changing strategic (knowledge) context for 2020 and beyond

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