

Channelling EU funds into efficient and renewable energy¹

Comparison of energy measures and allocations in the draft Operational Programmes of CEE-10 member states for the 2007-2013 period

1. Introduction: the energy challenge and the EU's response

It is now generally recognised that Europe needs to fundamentally overhaul the way it produces and consumes energy in the upcoming years in order to address its growing dependency on imports of fossil fuels, rising energy prices, and above all the threat of catastrophic climate change.

As a result, energy efficiency (EE) and renewable energy (RE) are today at the top of the European political agenda.

The European Union has already committed itself to:

- reduce greenhouse gas emissions by on average 8% by 2008-2012 compared to 1990 (Kyoto Protocol)
- increase the share of RE in energy consumption from 6% to 12% by 2010 (White Paper on Renewable Energies of 1997)
- take actions to reduce energy consumption by 20% by 2020, compared to business-as-usual scenario, which should save 100 billion euros a year and create one million jobs in Europe (Energy Efficiency Action Plan of 2006)

The EU has also adopted a number of further specific directives and targets in areas such as the energy performance of buildings, the efficiency of appliances, energy end-use efficiency, biomass energy, and cogeneration.²

Moreover, the EU is increasingly acknowledging that it will have to make far bigger reductions of its greenhouse gas emissions in the upcoming years – by 20-30% by 2020 and 60-80% by 2050.³

The EU will only be successful in tackling the energy challenge if there is a joint effort at all levels, from the local through regional and national to European, and if it is backed up by adequate financial resources.

¹ The briefing paper was prepared by CEE Bankwatch Network and Friends of the Earth Europe and is supported by Energie-cités, European Renewable Energy Council (EREC) and The European Alliance of Companies for Energy Efficiency in Buildings (EuroACE). The analysis is being continuously updated based on new drafts of Operational Programmes. For updates and further information, contact: Martin Konečný, CEE Bankwatch Network / Friends of the Earth Europe, e-mail: martin.konecny@foeeurope.org, phone: +32 2 542 01 85.

² E.g. Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources, Directive 2002/91/EC on energy performance of buildings, Directive 2004/8/EC on the promotion of cogeneration, Directive 2006/32/EC on energy end-use efficiency and energy services

³ Conclusions of the Environment Council meetings of 10 March 2005 and 20 February 2007.

2. EU funds for central and eastern Europe

Structural and cohesion funds (SF/CF) have a central role to play in realising the EU energy strategy and in promoting low energy intensity development models.

In the 2007-2013 period, the EU will distribute 308 billion euros in SF/CF (in 2004 fixed prices). Approximately half of this amount will go to the ten central and eastern European member states (CEE-10). In per capita terms, CEE countries will receive significantly more than what the Marshall Plan entailed after World War II.

SF/CF are the EU's main common financial muscle to promote its goals in the energy field. If the EU is really serious about achieving its energy goals, its funding through SF/CF must include robust, systematic and well-targeted support for EE/RE. Symbolic support here and there will not suffice.

Indeed, EE and RE are emphasised as one of the 12 priority areas for SF/CF investments by the Community Strategic Guidelines for Cohesion 2007-2013.⁴ Although there is no earmarking for the use of SF/CF, it could be theoretically expected that approximately one-twelfth, i.e. 8.5%, of total EU funding allocations will be invested into this priority area.

The prominence of EE and RE in the cohesion policy has also been reinforced by their addition into the scope of assistance from the **Cohesion Fund**⁵ as well as by the introduction of **earmarking in the general regulation for cohesion policy 2007-2013**. Based on the earmarking provision, an increased share of the funds will be targeted towards the promotion of the Lisbon agenda. RE, EE, co-generation and energy management are included among the promoted Lisbon categories of expenditure, which should receive more focus in the 2007-2013 period.⁶

Furthermore, the new EU **Action Plan for Energy Efficiency** includes "Spurring energy efficiency in the new Member States" as one of the 10 priority actions: *"The Commission will encourage European Regional Policy to deploy its national and regional programmes to promote more intensive investment to improve energy efficiency, in particular in the new Member States, including in the multi-family and social housing sectors."*

Similarly, the **Communication on the Share of Renewable Energy in the EU** called for the mobilisation of all EU financial instruments to allocate adequate resources for boosting RE.⁷

However, section 5 of this briefing shows that the whole emphasis on EE/RE in the EU cohesion policy is only poorly reflected in the actual draft spending plans for EU funds – the Operational Programmes (OPs). The OPs define how exactly the EU funds will be used in the member states and regions in the 2007-2013 period.

⁴ COM (2006) 386, chapter 4.1.3.

⁵ See Article 2(b) of the Cohesion Fund regulation 1084/2006.

⁶ See Article 9(3) and Annex IV of the general regulation for cohesion policy 1083/2006, where RE and EE activities are listed as categories 39-43.

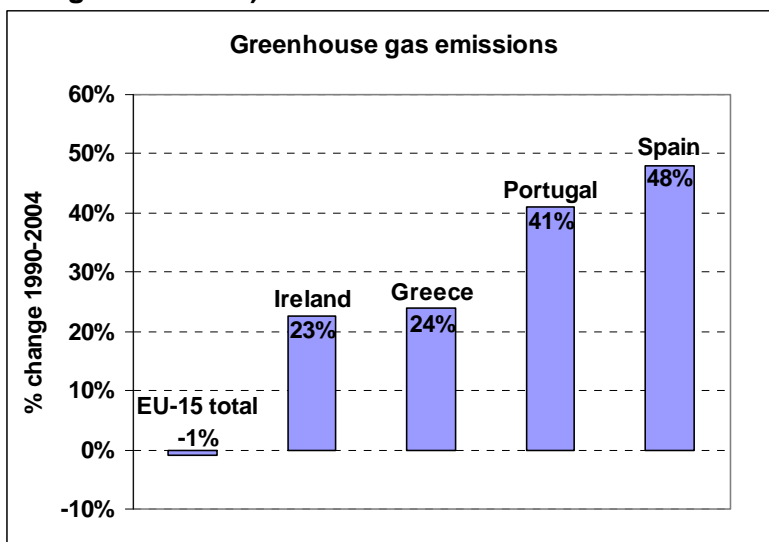
⁷ COM(2004) 366: "The Union's future financial framework for 2007-2013 should have explicit provisions so that clean and efficient energy concepts are a visible part of the Union's priorities, strategies and commitments. It is the opportunity for the enlarged Union to express its political determination to change course and direct its efforts towards sustainable energy, by allocating adequate resources to boost its goals in this field. The Community's main financial instruments – notably the future structural and cohesion funds, the financial support made available through the Community's international cooperation programmes, and the Common Agricultural Policy – all need to be mobilised."

In the first half of 2007, the European Commission will review and approve several hundred OPs submitted by the member states. Within two months of the receipt of an OP, the Commission can request changes.⁸ The Commission should use this opportunity to ensure strong, systematic and well-designed support for EE/RE throughout all the member states and in the CEE countries in particular. Given the large amount of resources at stake, the development of the EE/RE sectors over the entire upcoming seven-year period will greatly depend on the choices being made now in the OPs. If proper support for EE/RE is not included now, seven more years may be lost.

3. EU funds and climate change

The impact of the EU funds on climate change has up to now been an unequivocal failure. The four "cohesion countries" (Greece, Ireland, Portugal and Spain), which have so far received the most EU money, have also witnessed by far the greatest increases in greenhouse gas emissions in the EU (see Chart 1). While the blame cannot be wholly pinned on the EU funds, EU money has undoubtedly helped to fuel climate change instead of tackling it. This trend must not be repeated in central and eastern Europe. On the contrary, EU funds in the new member states could and should help to reduce greenhouse gas emissions by encouraging low energy intensity development paths. Support for EE/RE should therefore have a central place in the OPs of the CEE-10 countries.

Chart 1. Greenhouse gas emissions of countries receiving the most EU funding (% change 1990-2004)



Source: Eurostat 2006

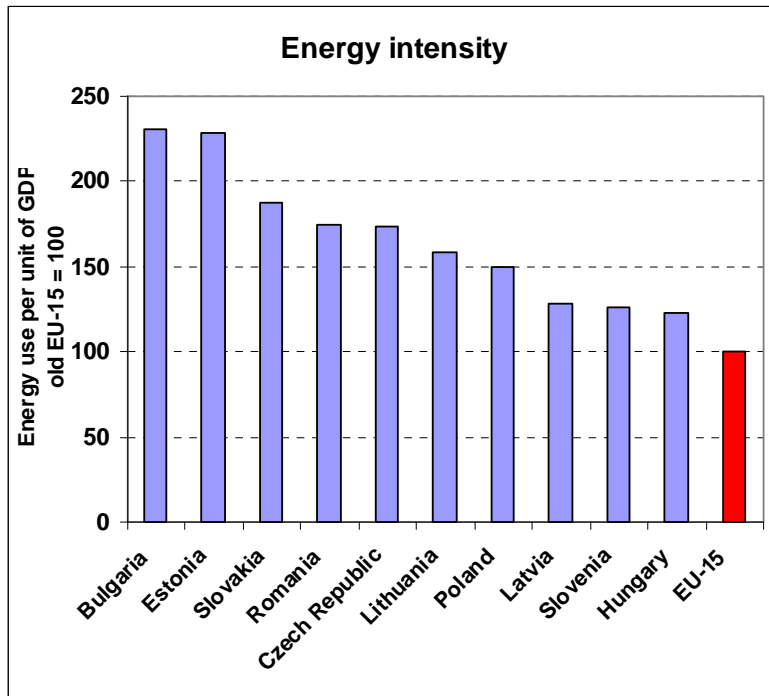
⁸ Article 32 of the general regulation for cohesion policy 1083/2006 states:
 "4. The Commission shall appraise the proposed operational programme to determine whether it contributes to the goals and priorities of the national strategic reference framework and the Community strategic guidelines on cohesion. Where the Commission, within two months following the receipt of the operational programme, considers that an operational programme does not contribute to the achievement of the objectives of the national strategic reference framework and the Community strategic guidelines on cohesion, it may invite the Member State to provide all necessary additional information and, where appropriate, to revise the proposed programme accordingly.
 5. The Commission shall adopt each operational programme as soon as possible but no later than four months following its formal submission by the Member State and not before 1 January 2007."

Almost all CEE countries are likely to meet their Kyoto targets, as their greenhouse gas emissions declined substantially in the 1990s due to economic restructuring. However, the greenhouse gas emissions of the ten new EU member states are now rapidly rising again, and are projected to increase at least by 11% by 2010.⁹ “The new Member States seem to be repeating the experience of Ireland, Portugal and Spain,” the European Environment Agency concluded. Such development could jeopardise any efforts for necessarily bigger post-Kyoto emission cuts after 2012.

4. Potential of the CEE region for energy savings and renewables

It takes on average 50% more energy to produce a unit of GDP in the CEE-10 member states than it does in western Europe (see Chart 2). Thus the potential for energy savings in the region is huge. High energy intensity increases production costs and thus undermines competitiveness of the CEE countries on the Single Market. EU funds could help secure massive energy savings across the economy and thus reduce energy bills for businesses but also households, schools, hospitals, and other public buildings.

Chart 2. Energy intensity in CEE-10 countries relative to the EU-15 (2003)



Source: Eurostat 2006

Among other areas, EU funds should be invested into the energy-efficient refurbishment of buildings and the modernisation of district heating installations. The high-rise residential buildings in CEE towns and cities are notoriously wasteful with heat and in urgent need of refurbishment. Delaying of reconstruction works will worsen the condition of the houses and lead to increased expenditures in future. With energy prices increasing, the impact on the residents of high-rise building estates – often the poorer members of society – could be dramatic if the buildings are not renovated to make them more energy efficient. The total costs of energy-efficient refurbishment of the high-rise building stock in Europe have been estimated at 25 billion

⁹ Greenhouse gas emission trends and projections in Europe 2006. European Environment Agency report no. 9/2006.

euros.¹⁰ The energy savings would offset the renovation costs, but without the initial investment none of this can happen.

District heating is commonplace in CEE countries, with around 40% of households connected in comparison with 10% in the old member states. Old coal or oil boilers can be converted to modern, efficient gas or biomass boilers. There is also large untapped potential for the integration of solar thermal and geothermal energy into district heating systems. Many district heating installations can also be redesigned for the combined generation of heat and electricity.

EU funds should also be used to unlock the large but unused renewable energy potential of the CEE countries for both electricity and heating. The share of RE in electricity consumption in the new member states is 5.7% as opposed to 14.7% in the old EU-15.¹¹ All CEE countries have targets for increasing the share of RE. Almost all of them have already been using SF/CF for the promotion of RE in the 2004-2006 period. In 2007-2013, funding support for RE such as biomass, wind, solar or geothermal sources should be enhanced and improved.

Investments in EE and RE are particularly relevant for the EU's regional policy, as they are especially beneficial for regional development and can provide a boost to local economies. It is at the regional and local levels that most of the gains in energy efficiency and renewable energy generation can be made.

5. Comparison of draft energy activities and allocations

How is the EU's official emphasis on EE/RE reflected in the plans of the CEE countries for using EU funds in 2007-2013?

Our analysis of the draft Operational Programmes of the CEE countries reveals major differences between the plans of the different countries (See Chart 3 and Annex 1). The results show that unless the OPs are subjected to considerable modifications, EU funding support for EE/RE in CEE countries in 2007-2013 will be sorely inconsistent and insufficient.

Only Lithuania can be said to be taking EE/RE seriously in its draft plans, by allocating 5.4% of all its SF/CF money for it, followed by Slovenia with 3.8%. On the other side of the spectrum, Poland, Hungary and most probably also Bulgaria are planning to give only token support for EE/RE, allocating just around 1% of all EU funding for it. In particular, the allocations for energy efficiency are extremely low in Poland and Hungary – at 0.5% of their EU money. It is worth noting in this context that Poland and Hungary are the two member states which have most resisted adoption of any EU targets for reducing greenhouse gas emissions by 2020.¹²

Overall, 3.1 – 3.2 billion euros - only 2% of the overall SF/CF allocation for CEE-10 countries - is to be invested in EE/RE in 2007-2013 (in fixed prices; not including national and private co-financing).

The planned investments clearly fall short of the sort of action needed to realise the EU's strategic energy objectives over the next seven years. If the EU intends to unlock the potential for energy savings and renewable energy in the CEE countries, the draft OPs need to be revised

¹⁰ *High-rise: changing the view*. Summary report of Energy Efficiency in the Refurbishment of High-rise Residential Buildings. Association for the Conservation of Energy, 2006

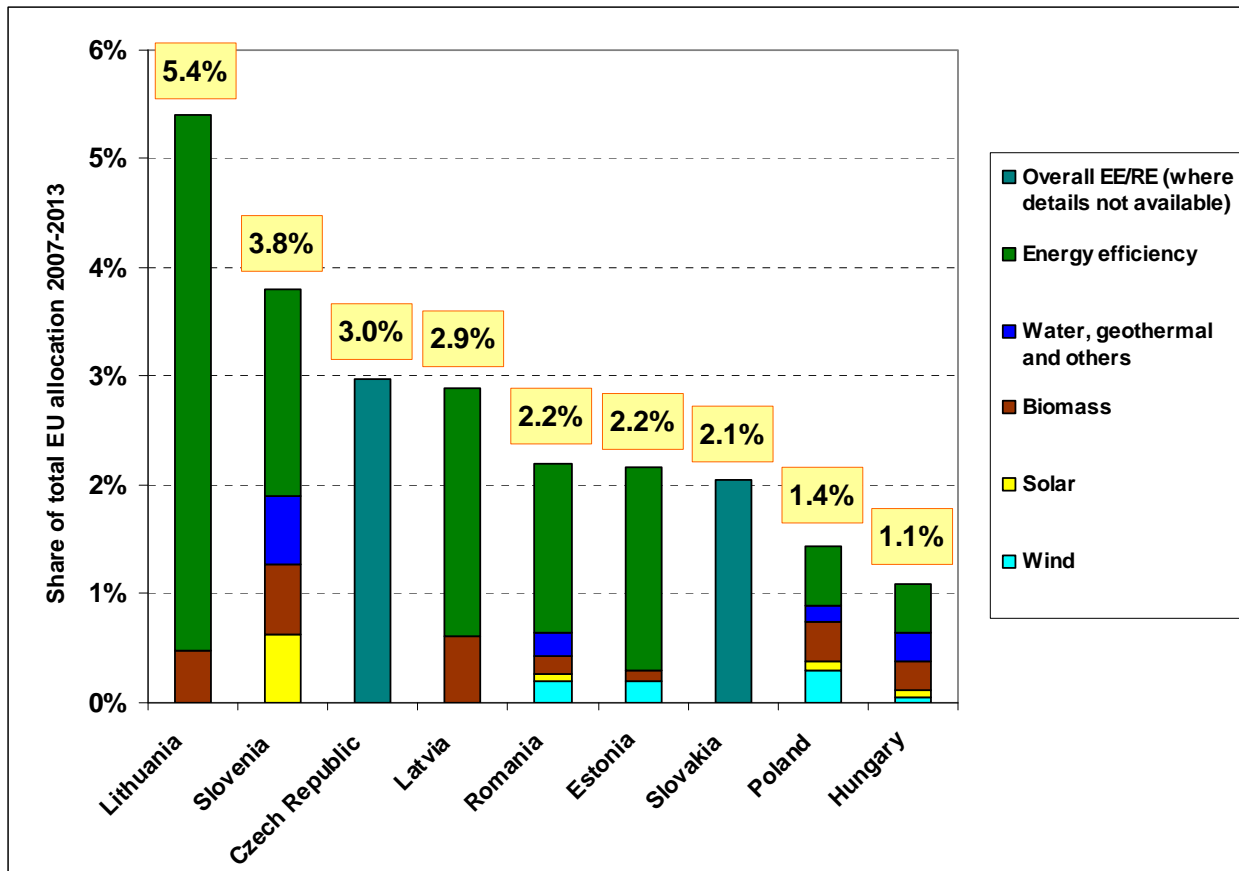
¹¹ New member states without Romania and Bulgaria. *Greenhouse gas emission trends and projections in Europe 2006*. European Environment Agency report no. 9/2006.

¹² EU Environment Council meeting, 20 February 2007.

and the support for EE/RE needs to be significantly strengthened. This pertains especially to the countries planning the most weak and narrow support for EE/RE. They can do much better, as the examples of countries with more comprehensive support in their plans show.

In addition, it is important to ensure that EE/RE is, as a horizontal priority, integrated as much as possible into all other measures and activities to be financed by EU funds. For example, any investments of EU funds in buildings and housing should systematically integrate energy-saving measures and RE technologies. The measures for modernisation of universities in Slovakia's OP Research and Development, which explicitly include improvements in energy efficiency, may serve as a positive example in this respect.

Chart 3. Share of EE/RE allocations in total EU funding in CEE countries for 2007-2013¹³



¹³ Based on indicative allocations in the draft Operational Programmes available as of 26 February 2007. See Annex for details of planned measures and allocations in the draft OPs. Only measures whose primary aim is explicitly energy efficiency and renewable energy are counted. What is not included:

- 1) Other measures that may *indirectly* also contribute to decreasing energy intensity, e.g. research and development or public transport
- 2) Measures for energy security or reduction of NO_x and SO_x emissions from fossil fuel sources as planned for example in Poland, Romania and Lithuania. These measures do not directly and explicitly aim to contribute to energy efficiency or renewable energy production.
- 3) In case of the Czech Republic and Hungary, there may be additional EE/RE measures in regional OPs, which are not included in this analysis. However, they are unlikely to significantly change these countries' overall EE/RE allocations. In case of Poland, the EE/RE measures in its regional OPs are included in the analysis.

6. Quality of EE/RE measures

The comparison above only looks at the quantity of funding for EE/RE. However, it is equally important that the EE/RE measures are thoughtfully prepared, well designed and carefully targeted in order to maximise the added value of the funding support and to avoid any negative side effects. In the EE sector, the key role of the public funds is to address pervasive market failures which inhibit cost-effective energy savings. The funding support should therefore act primarily as a well targeted catalyst stimulating private sector and owners of buildings to invest more actively in increasing the energy efficiency of their companies or buildings.

In the RE sector, using EU funds to finance suitable demonstration facilities will trigger further investment in RE sources. The aim should be to establish a decentralised network of small and medium-scale, locally sourced and environmentally friendly RE facilities spread across the territory of each country. A decentralised manner of energy production will bring more balanced regional development than a few big power centres. Support for large-scale biomass projects (e.g. the mixing of biomass into the fuel of large fossil fuel power plants), which could stimulate the overuse of natural resources and fuel price increases at the expense of small- and medium-scale biomass energy producers, should therefore be avoided.

7. Recommendations

During the review of the member states' Operational Programmes, the Commission should require systematic support for EE/RE in each member state. The OPs should be revised to ensure the following:

- At least **5% of all EU funds** in each member state should be allocated for EE/RE priorities
- The measures should be **well-prepared, targeted and include environmental criteria** for RE investments
- **Inclusion of the following measures** should be considered in the OPs of each member state:
 - promoting **energy efficiency and renewable energies in industry** and the use of waste heat in enterprises
 - energy-efficient refurbishment of the **housing sector** – renovation of high-rise residential buildings and social housing with energy saving measures and systematic integration of RE technologies.
 - energy-efficient refurbishment of **public buildings** (hospitals, schools, state and municipal buildings)
 - renovation of municipal **district heating systems**, replacing fossil fuels with biomass, cogeneration and integration of solar and geothermal sources
 - renovation of **public lighting** systems
 - savings in the **energy sector** (distribution of heat and electricity)
 - support for **renewable energy investments**: renovation of existing energy sources and installation of new RE systems; including biomass, wind, solar, geothermal and small hydro
 - support for **cogeneration** of heat and electricity
 - **energy audits** for households, **training** for businesses and craftsmen, **networking** between municipalities, awareness **campaigns**
- Energy-saving measures and RE technologies should be **systematically integrated into other priorities** and measures in the OPs – for example any investments in buildings and housing
- Ensure the **additionality and complementarity** of EU funded programmes with regard to existing national programmes and policies
- The OPs for each member state should **demonstrate how EU funded programmes will help the given country reach its EE and RE targets** through appropriate indicators.

Authors:



CEE Bankwatch Network is an international non-governmental organisation (NGO) with member organisations currently from 11 countries across the central and eastern European region. The aim of the network is to monitor the investments supported by the international financial institutions (IFIs) as well as by the European Union funds, and to propose constructive alternatives to their policies and projects in the region. www.bankwatch.org



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Contact: Martin Konečný, CEE Bankwatch Network/Friends of the Earth Europe, Rue Blanche 15, 1050 Brussels, Belgium, Tel: + 32 2 542 01 85, Fax: + 32 2 537 55 96, E-mail: martin.konecny@foeeurope.org

Annex 1: Comparison of EE/RE measures and allocations in the draft Operational Programmes of CEE countries¹⁴

✓ included | ± partly included | ✗ not included

| | Energy efficiency | | | | | Renewable energy | | | | | No. of measures | Allocation – share of all EU funding ¹⁵ | Overall |
|----------------|------------------------|---------------|---------|------------------|------------------|------------------|-------|----------|-------------|-------|---|--|---------|
| | industry / enterprises | energy sector | housing | public buildings | district heating | wind | solar | bio-mass | geo-thermal | hydro | | | |
| Lithuania | ✗ | ✓ | ✗ | ✓ | ✓ | ✗ | ✗ | ✓ | ✗ | ✗ | 1 priority with 2 measures in OP Cohesion and 1 measure in OP Economic Infrastructure | 5.4% | 😊 |
| Slovenia | ✓ | ✗ | ✓ | ± | ✗ | ✗ | ✓ | ✓ | ✓ | ✗ | 1 priority with 4 measures in OP Environment & Infrastructure | 3.8% | 😊 |
| Czech Republic | ✓ | ✗ | ✗ | ✓ | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 priority with 3 measures in OP Environment and 1 priority in OP Enterprise | 3.0% | 😊 |
| Latvia | ✗ | ✗ | ✓ | ± | ✓ | ✗ | ✗ | ✓ | ✗ | ✗ | 2 measures with 5 sub-measures in OP Infrastructure & Services | 2.9% | 😐 |
| Romania | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 1 priority with 2 measures in OP Competitiveness and partially 1 priority in OP Environment | 2.2% | 😐 |
| Estonia | ✗ | ✗ | ✓ | ✗ | ✓ | ✓ | ✗ | ✓ | ✗ | ✗ | 1 priority with 3 measures in OP Environment | 2.2% | 😐 |
| Slovakia | ✓ | ✓ | ✗ | ✗ | ± | ✗ | ✓ | ✓ | ✓ | ✓ | 1 measure in OP R&D & Innovation and 1 sub-measure in OP Environment | 2.1% | 😞 |
| Poland | ✗ | ✓ | ✗ | ± | ± | ✓ | ✓ | ✓ | ✓ | ✓ | 1 priority with 5 measures in OP Environment & Infrastructure | 1.4% | 😞 |
| Hungary | ✓ | ✗ | ✗ | ✓ | ✓ | ± | ✓ | ✓ | ✓ | ✓ | 2 priorities in OP Environment | 1.1% | 😞 |
| Bulgaria | ✓ | ✗ | ✗ | ✗ | ✗ | ± | | | | | 1 sub-measure in OP Competitiveness | ? | 😞 |

¹⁴ The evaluation is not only based on quantitative data about the planned allocations but also on the contents and quality of the measures. A higher allocation is thus in itself not a guarantee of a better “score”. More information about the planned measures and allocations is in Annex 2.

¹⁵ Share of EE/RE allocations in total EU funding volume for a given country, not including national and private co-financing.