European Commission

REPLIES OF THE EUROPEAN COMMISSION

TO THE EUROPEAN COURT OF AUDITORS' SPECIAL REPORT

CLIMATE SPENDING IN THE 2014-2020 EU BUDGET

NOT AS HIGH AS REPORTED

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This document presents the replies of the European Commission to observations of a Special Report of the European Court of Auditors, in line with Article 259 of the Financial Regulation and to be published together with the Special Report.

I. THE COMMISSION REPLIES IN BRIEF

The Commission welcomes this Special Report by the European Court of Auditors (ECA). Mainstreaming climate action in EU funds is a key tool to help achieve the EU's climate goals, one of the EU's top priorities, as underscored by the *European Green Deal*.

The Commission has invested substantial resources into developing a sound methodology to track and report on climate spending in the EU budget, benefiting from close exchanges and cooperation with the European Parliament and the Council. The Commission is always pursuing opportunities to improve its methodology, as outlined in the June 2021 Communication on the Performance Framework for the EU budget[1].

From this perspective, while the Commission acknowledges that by its own nature its climate mainstreaming methodology, and the reporting based thereupon, remain an approximation, the Commission does not share the ECA's view that climate reporting is unreliable. Many of the features identified as weaknesses by the ECA are necessary features of a methodology that aggregates expenditure across different programmes, implemented over different time horizons and through different management modes. Other shortfalls have been addressed by moving to an "effect-based" methodology for the 2021-2027 Multiannual Financial Framework (MFF) from an "intent-based" methodology used for the 2014-2020 MFF.

In several instances, the ECA raises concerns that figures on climate-relevant expenditure are updated as time elapses (as was done, amongst others, for the 2014-2020 CEF and Horizon 2020). The Commission considers that adjusting figures – upward or downward as the case may be – to correct mistakes and reflect the most granular and up-to-date information as it becomes available in a transparent manner is not a weakness but essential to provide a reliable and accurate estimation of the share of climate-relevant expenditure in the EU budget.

II. COMMISSION REPLIES TO MAIN OBSERVATIONS OF THE ECA

1. CLIMATE MAINSTREAMING METHODOLOGY

The core of the methodology for the 2021-2027 MFF has been presented in the "Communication on the Performance Framework 2021-2027". This methodology represents a significant improvement compared to the methodology used for the 2014-2020 MFF and addresses a number of the shortcomings identified.

Most importantly, the 2021-2027 methodology attributes a climate-relevant contribution (the so-called "EU Climate Coefficient", which can be either 0, 40%, or 100%) to each action based on whether and to what extent it is expected to help address climate change. It is, in other words, an "effect-based" methodology, contrary to the 2014-2020 methodology which was essentially modelled on the OECD's "intent-based" methodology. The OECD approach assigns a positive climate coefficient if and only if an action is undertaken with the explicit intention to tackle climate change.

[1] https://ec.europa.eu/info/publications/communication-eu-budget-performance-framework-2021-2027_en

The shift to the 2021-2027 effect-based approach significantly reduces the risk that similar actions might be assigned different climate coefficients for the sole reason they are included in different EU spending programmes, something the ECA points out for the 2014-2020 MFF period. A simple example, such as the construction of a cycle path with EU funds, may help to understand why this is the case. Under an "intent-based" climate-tracking methodology the "climate relevance" of this intervention depends on whether its purpose is to tackle climate change or rather, for example, to encourage a healthier life-style. Under an "effect-based" methodology, the investment in the cycle path is assigned the same climate coefficient regardless of its explicit goal, because it does reduce greenhouse gas (GHG) emissions by enabling the replacement of vehicle traffic.

Moreover, as per the inter-institutional agreement between the European Parliament, the Council and the Commission[2], the 2021-2027 MFF is subject to the "Do No Harm" (DNH) oath enshrined in the European Green Deal. This aims to ensure that no part of the budget —regardless of whether it is considered climate relevant or not— will harm, or go against, the EU's climate and environmental objectives. The oath has been operationalised through different, tailored mechanisms in EU funding programmes - including the Recovery and Resilience Facility (RRF) Regulation and the Common Provisions Regulation (CPR) that governs the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund Plus (ESF+), and the Just Transition Fund (JTF). The Commission believes that preventing expenditure with negative effects on climate (as is currently done via the DNH principle throughout the EU budget), is preferable and more valuable than expanding the existing climate tracking methodology by tracking any amounts spent on interventions with negative climate impacts.

The Commission acknowledges that having a single climate coefficient methodology, as advocated by the ECA[3], could be an efficient way of ensuring consistency across all EU funding programmes. At the same time, including the relevant aspects of the methodology in the individual basic acts (such as the CPR, and the Regulations governing the Common Agricultural Policy (CAP), the RRF and the Connecting Europe Facility (CEF)) serves to enshrine the inter-institutional commitment to climate mainstreaming in each specific area. The Commission has worked closely with the European Parliament and the Council to ensure that the risk of inconsistencies between different legal acts is minimised.

With reference to the ECA's observation that the EU climate tracking methodology and reporting involves "significant approximation" which makes it "unreliable"[4], the Commission readily acknowledges that the EU methodology — like most methodologies for tracking climate-relevant spending in a public budget — only produces an approximation of the resources devoted to fight climate change. However, what matters is that the methodology and the underlying assumptions for that approximation are clear, reasonable, and transparently communicated. On that basis, the Commission does consider that the EU methodology is solid and reliable.

The Commission will continuously update and fine-tune reported figures as more data becomes available. The Commission has, for example, reviewed the 2014-2020 figures to take into account the most up-to-date information, especially from programmes implemented in shared management. Such review allowed the Commission to confirm the achievement of the 20% target for the 2014-2020 MFF. In the context of this review the Commission also corrected the error identified by the ECA in the calculation of the ESF climate contribution. Based on the information available to the Commission after March 2022, the Commission can confirm that the share of the 2014-2020 MFF devoted to climate-relevant activities has exceeded the 20% target.

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020Q1222(01)&from=EN

[3] See section on overall reporting on climate spending (35-43) of the special report

[4] See for example the Executive Summary (∫∫ VI) of the special report

The ECA also points out that the EU climate tracking methodology aggregates amounts at different levels of granularity, in different programmes and at different moments of the expenditure cycle[5]. While this is correct, this is unavoidable when providing an estimate of yearly expenditure in real time and for multiple EU funding programmes, with varying time-frames and implementation modes. These features reflect some of the practical, yet inherent constraints of such a methodological endeavour and stem from the requirement that the methodology itself should be implementable within the requirements set in the relevant basic acts, without imposing undue administrative burden for all actors involved (Commission, Member States, and the ultimate beneficiaries of EU programmes). Moreover, the Commission has worked to streamline the different approaches and to ensure consistent tracking in direct management (now done in the most granular way directly in the accounting system) and shared management (done based on the most updated data available from Member State reports).

The ECA also points out that the Commission does not yet quantify the *effects* of EU expenditure on climate in a systematic and comprehensive way.[6] In this context, it is worth recalling the Commission's on-going work to further improve its performance framework for the EU Budget. As stated in the June 2021 Performance Communication[7], the Commission will develop aggregating indicators providing a quantitative approximation of the effects of its expenditures across the entire EU budget. This is work in progress.

2. OBSERVATIONS ON SPECIFIC PROGRAMMES

With respect to the EU's **agriculture policy**, the Commission notes that the new CAP will help support the transition to more sustainable land-management practices in the context of the *European Green Deal*. It will do so through additional climate and environment requirements for farmers to receive income support ("enhanced conditionality"), the introduction of 'eco-schemes' to encourage farmers to adopt additional sustainable agricultural practices and various interventions under rural development, mainly management commitments and investments addressing environment and climate related objectives. Eco-schemes are a new tool under direct payments which will give Member States the possibility to holistically address climate and environmental objectives beyond the legal requirements under conditionality, such as climate mitigation and adaptation, improving biodiversity at farm level and ensuring water quality. The effectiveness of the eco-scheme implementation will also depend on the level of ambition of Member States in using this new tool. As part of a structured dialogue with Member States, the Commission will ensure that the level of ambition will reflect the needs on the ground. Member States have the obligation to ring-fence 25% of direct payments for such type of support, as well as to allocate 35% of the CAP's rural development budget for interventions in support of climate, biodiversity, environment and animal welfare objectives. The Commission is presently assessing Member States' CAP strategic plans with these commitments in mind. The role that the land sector has to play in achieving the EU's ambitious climate objectives is also reflected in the Commission's July 2021 Fit-for-55 proposals.

The ECA raises questions on the 100% coefficient assigned to electricity grids and railway infrastructures under the **Connecting Europe Facility (CEF)**[8], on the basis of greenhouse gas (GHG) emissions that arise from the associated construction works and other infrastructural

[5] See section on overall reporting on climate spending (44-46) and conclusion (60) of the special report

[6] See section on overall reporting on climate spending (36-43) of the special report

[7] https://ec.europa.eu/info/publications/communication-eu-budget-performance-framework-2021-2027_en

[8] See section on climate contribution of infrastructure and cohesion funding (29-34) of the special report

investment. The Commission considers that, since these investments comply with the EU Taxonomy conditions[9], such a coefficient is justified[10].

The need for a rapid clean energy transition has never been stronger and clearer. Grid electricity investments and railway projects, independently of whether they are funded under CEF1 or CEF2, are a precondition for replacing fossil fuels by green electricity from renewables and ensure sustainable transport, in line with the Green Deal, and should be as attributed a 100% climate coefficient.

The Commission considers that for the 2021-2027 period, the 100% climate coefficients for **cohesion policy** investments in alternative fuels infrastructure and railway are properly justified because Article 7(1)(h) of the ERDF and Cohesion Fund Regulation explicitly excludes investments related to production, processing, transport, distribution, storage or combustion of fossil fuels.

The ECA also identifies an apparent inconsistency under the 2014-2020 MFF between the treatment of investments called 'railway' in the CEF and the cohesion policy (ERDF and CF). The approach taken in cohesion policy in the past was to mark all rail investments with a 40% coefficient, regardless of whether they were funded under the Trans-European Transport Network (TEN-T) (and thus electrified) or outside TEN-T (potentially non-electrified). If at all, this has led to an *underreporting* of climate related spending. The Commission is confident that the refined classification of activities in the 2021-2027 methodology addresses any such ambiguity.

III. COMMISSION REPLIES TO THE CONCLUSIONS AND RECOMMENDATIONS OF THE ECA

Recommendation 1 – Climate relevance of agricultural funding

(ECA's target implementation date: June 2026)

Measure CAP contributions based on scientific evidence

The Commission accepts this recommendation. The Commission consistently aims to measure CAP contributions in the most reliable, scientific-based manner possible, while also taking into account that the methodology needs to be simple to implement and undue administrative burdens should be avoided. The Commission agrees to modify the weightings referred to in Article 100(3) of Regulation (EU) 2021/2115[11], where such modification is warranted for more precise tracking of expenditure on environmental and climate-related objectives.

[9] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

[10] This also meets the recent recommendations from the ECA in their Special Report 22/2021

[11] Regulation (EU) 2021/2115 of the European Parliament and of the Council of 2 December 2021 establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulations (EU) No 1305/2013 and (EU) No 1307/2013, OJ L 435, 6.12.2021, p. 1–186

Recommendation 2 – Enhancing climate reporting

(ECA's target implementation date: June 2025)

a. **Identify EU spending with potential negative effects/contributions**;

The Commission does not accept this recommendation. All basic acts impose compliance with a suitable/tailored version of the "do no harm" principle and the EU Climate Law requires the Commission to assess the consistency of any draft measure or legislative proposal (including budgetary proposals), with the EU's 2050 climate-neutrality objective and the EU 2030 and 2040 climate targets before adoption. Therefore, the Commission considers that the benefit of expanding the climate mainstreaming methodology to cover negative impact as proposed by the ECA would be lower than the additional burden it would impose on all relevant actors.

b. **Issue guidelines to ensure consistency across programmes**;

The Commission accepts this recommendation. The Commission will issue guidelines for climate reporting across the EU budget. In cooperation with the European Parliament and the Council, it has already ensured that the key elements of the climate tracking methodology introduced in the different basic acts are internally consistent across programmes, using the CPR as a reference.

c. **Enhance reports on commitments by accounting for unused amounts**;

The Commission accepts this recommendation. The Commission will enhance its annual climate reporting to also account for unused (unspent and de-committed) amounts.

Recommendation 3 – Linking EU budget to climate and energy objectives

(Target implementation date: December 2025)

Assess contributions of EU spending on climate and energy objectives:

The Commission accepts this recommendation. The Commission is working on establishing a methodology, using available data, to assess the EU budget's overall impact in terms of GHG emission reduction.