

Review ^{NO} 01

EN

Tracking climate spending in the EU budget



EUROPEAN
COURT
OF AUDITORS

2020

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Executive summary

I Climate change is a global challenge with a significant effect on our lives, and the EU has set itself ambitious objectives in response. Building on those, climate mainstreaming involves integrating climate action into EU policies and funds, and committing to spending a percentage of its budget on addressing climate change. Tracking climate spending means measuring the financial contribution to climate objectives from different sources.

II In 2011, the Commission announced its objective of spending at least 20 % of the 2014-2020 EU budget on climate action. In 2018, the Commission set a more ambitious goal for the proposed 2021-2027 EU budget – a target of 25 % of expenditure contributing to climate objectives. In absolute figures, this planned €320 billion on climate action in 2021-2027, a projected increase of €114 billion compared with 2014-2020. The Green Deal, published in December 2019, aimed at resetting the EU's climate and environment-related objectives, and confirmed the 25 % target. It sought to mobilise at least €1 trillion in sustainable investments over the next decade, funded by the EU budget and other public and private financing. In May 2020, the Commission amended its proposals for 2021-2027 in the light of the COVID-19 crisis.

III This review is not an audit report. It aims to update the ECA's previous analysis of climate tracking in the EU budget, as recommended by the European Parliament and the Council. Our previous work on EU climate spending ([special report 31/2016](#)) confirmed that ambitious work was underway and that, overall, the Commission had made progress towards reaching the target for 2014-2020. However, it also flagged up the risk of falling short of this target, as well as some methodological flaws leading to overstated climate-related spending.

IV The aim of this review was twofold: to follow up our previous report on how the Commission acted and reported on tracking climate-related spending in 2014-2020; and to look into the more ambitious commitment to spend at least 25 % from the future EU budget on climate action. We focus on agricultural, cohesion and research policy areas, the most important contributors to this commitment for 2021-2027.

V To track climate spending, the Commission uses a methodology based on the following three coefficients, adapted from the Organisation for Economic Co-operation and Development (OECD)'s markers: 100 %, assigned to EU funding with a significant contribution to climate objectives; 40 %, awarded to funding with a moderate contribution; and 0 %, allocated to funding with no or an insignificant contribution. This

method has the advantage of being simple and pragmatic, but may result in overstating estimates.

VI In 2019, the Commission reported that the EU budget was on course to deliver 19.7 % budget spending on climate for the 2014-2020 programme period. The methodology for tracking climate spending had remained largely unchanged since the publication of our [2016 report](#). It therefore continues to overestimate the contribution of certain common agricultural policy schemes to tackling climate change. Here, we flag up the risk that some expenditure in agriculture and cohesion policies could speed up climate change. The research sector is lagging behind in reaching its ambitious 35 % climate-spending target.

VII As at mid-2020, the budget for the 2021-2027 programme period is under discussion by the Council and the European Parliament, as are the common agricultural policy and the cohesion policy framework. Climate action remains a key priority for the Commission in 2021-2027. The anticipated contributions to climate-related spending from some agricultural schemes have been overstated, according to a number of publications. Their authors consider that the Commission's climate tracking methodology needs to be reconsidered to render it more reliable. They also discuss netting off the EU funding by compensating for any investments with a negative climate impact with additional climate-related spending. Overall, there are indications that based on the Commission's current proposals it will be challenging to reliably step up climate-related spending to 25 % of the EU budget.

Introduction

Climate spending in the EU budget

01 Climate change is one of the biggest challenges affecting our lives today. Its effects include temperature increases, changes in precipitation patterns, more droughts and extreme weather events, increases in the sea level and melting ice. Climate change has consequences for our health, but also for wildlife, the economy, and more (see [Figure 1](#)).

Figure 1 – Climate change has consequences



Source: ECA.

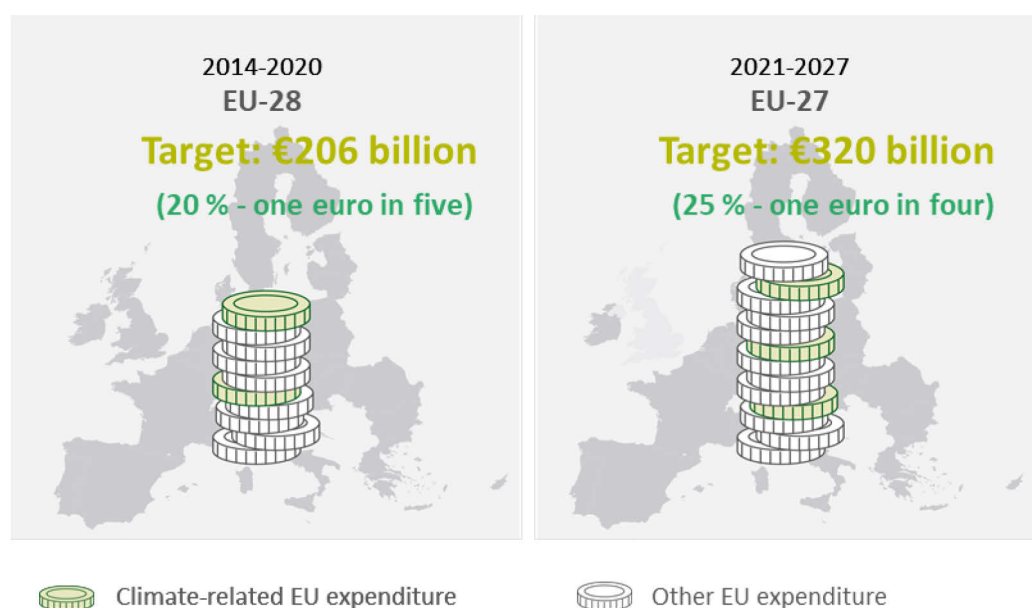
02 The EU has ambitious objectives for addressing climate change, both through its own policies and via cooperation with international partners. These include targets for the reduction of greenhouse gas emissions, the improvement of energy efficiency and the increased use of renewables.

03 Rather than creating a dedicated funding instrument to address climate change, the Commission opted to mainstream climate in the EU budget. This involved integrating climate action into EU policies, programmes and funds, and committing to spending a percentage of its budget on climate action. In this context, tracking climate spending (or tracking climate finance) means measuring the financial contribution to climate objectives from different sources.

04 Building on the EU objectives for addressing climate change (see paragraph **02**), in 2011, the Commission announced the objective to spend at least 20 % (**one euro in five**) of the 2014-2020 EU budget on climate action¹. The Commission reports annually on overall climate-related spending in its *Annual Management and Performance Report for the EU Budget*, its *Draft General Budget*, and, starting from 2019, in the *Programme Performance Overview*.

05 In 2018, when proposing the next multiannual financial framework (MFF), the Commission set a more ambitious goal for climate mainstreaming across all EU programmes. This new target was 25 % of EU expenditure on climate action², or **one euro in four**. In absolute figures, this 2018 proposal planned €320 billion (current prices) on climate action between 2021 and 2027, or an increase of €114 billion compared with 2014-2020 (see *Figure 2*). In May 2020, the Commission amended its proposals for 2021-2027 in the light of the COVID-19 crisis. An updated figure for climate spending had not been disclosed as at May 2020. The MFF had not been adopted at the time of our review.

Figure 2 – Climate-related spending targets (as at April 2020)



Source: ECA, based on COM(2018) 321, May 2018: A Modern Budget for a Union that Protects, Empowers and Defends; The Multiannual Financial Framework for 2021-2027, p. 22.

¹ COM(2011) 500 final: “A budget for Europe 2020”, Part II, p. 13.

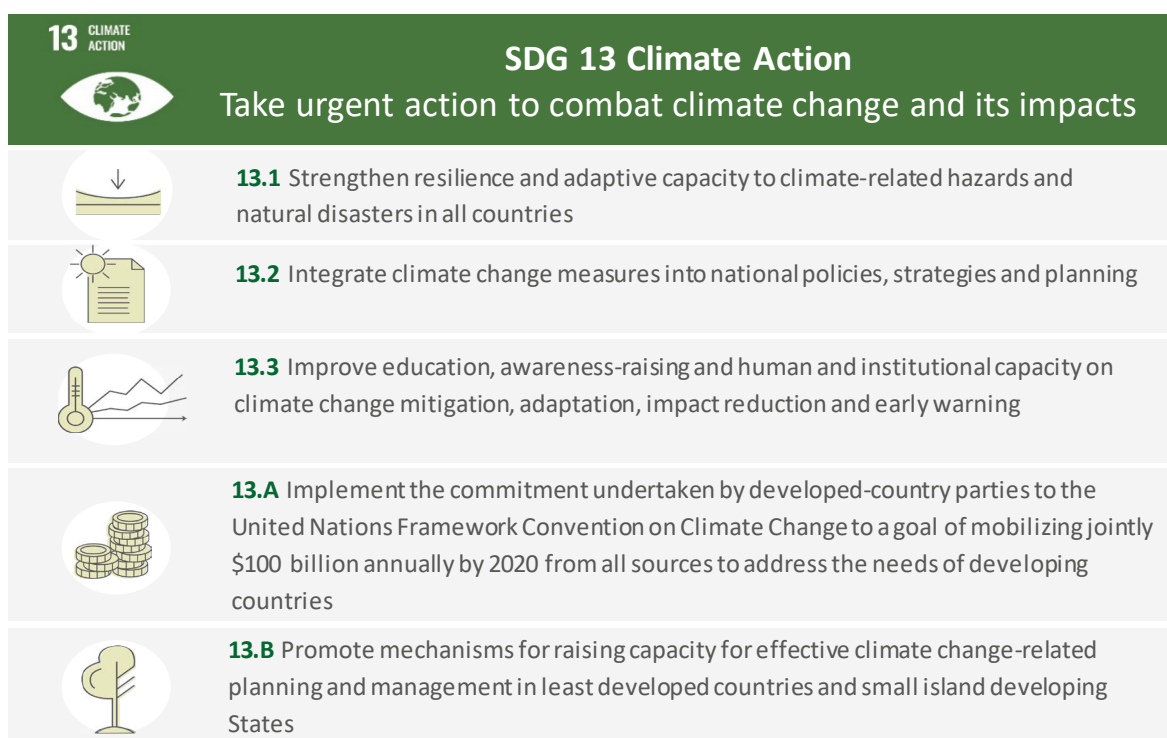
² COM(2018) 321 final: “A Modern Budget for a Union that Protects, Empowers and Defends; The Multiannual Financial Framework for 2021-2027”.

The Green Deal

06 The Commission aims to reset its commitment to tackling climate and environment-related challenges with the [Green Deal](#)³, published in December 2019. It aims to support the transition to a transformed EU economy that responds to the challenges posed by climate change and environmental degradation. The Green Deal confirmed the Commission's 25 % target for climate-related spending across all EU programmes.

07 The Commission put forward the Green Deal as part of its strategy to implement the United Nation's 2030 Agenda and the Sustainable Development Goals (SDGs). Of those, SDG 13 - Climate Action targets adaptation, the integration of climate change measures into national policies, awareness-raising, spending commitments, and actions to combat climate change (see [Figure 3](#)).

Figure 3 – Targets of SDG 13 - Climate Action



Source: ECA, based on data from <https://sustainabledevelopment.un.org/sdg13>.

08 The Green Deal discusses the need to green national budgets, and puts particular emphasis on fostering research and innovation to achieve climate objectives. The Green Deal commits the Commission to stepping up its efforts to ensure reliable climate

³ COM(2019) 640 final: The European Green Deal.

reporting (“tackle false green claims”) in the context of consumer products – the “green claims” should be substantiated using standard methodology to assess their impact.

09 Tackling climate change requires substantial investment, so in January 2020 the Commission published the European Green Deal Investment Plan. This aims to mobilise at least €1 trillion in sustainable investments over the next decade to address climate, and also environmental action in the EU. The Plan would be partly financed by the EU budget, but also by national co-financing and leveraged investments from the private sector. Within this, the Just Transition Mechanism aims to provide targeted support to regions and sectors that are most affected by the transition towards the green economy⁴. This support will be available for general economic development, and not limited to reducing carbon emissions.

10 The COVID-19 crisis may alter political priorities, shifting the focus towards addressing public health threats, boosting economies, or creating jobs – possibly changing policy delivery models. Climate change will nonetheless remain a global challenge and a main concern for the people, policymakers and stakeholders.

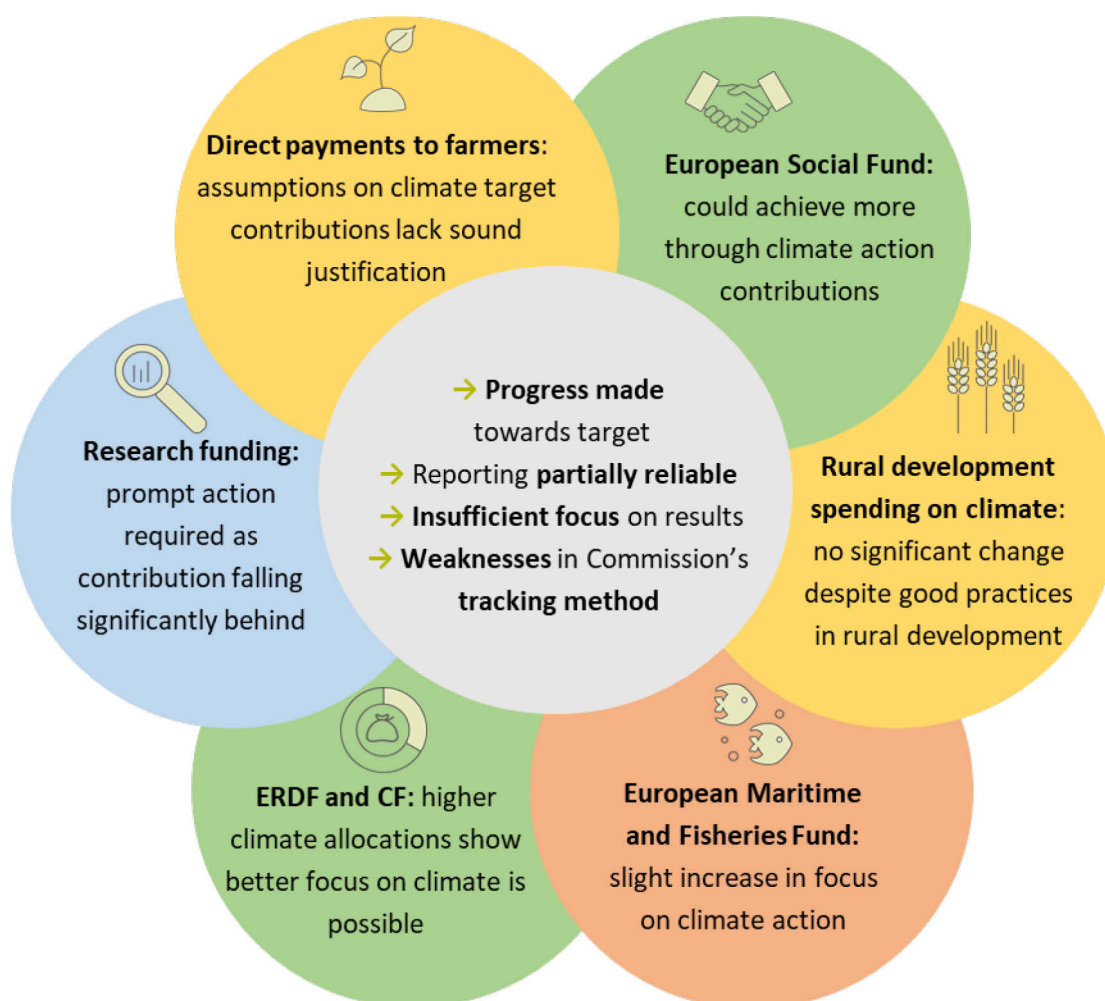
Previous ECA work on climate spending

11 In [special report 17/2013](#) on EU Climate Finance in the context of external aid, we audited the Commission’s management of climate-related spending from the EU budget and the European Development Fund. We recognised the steady increase in climate-related spending in specific partner countries, and made recommendations aimed at improving reporting on climate-related spending from EU development aid, the monitoring and tracking of this spending, and cooperation between the Commission and Member States in this regard.

12 Our [special report 31/2016](#) examined the EU’s political commitment to mainstreaming climate action across EU budget spending for the 2014-2020 MFF, ensuring that at least 20 % of the EU budget was spent on climate action. The report confirmed that ambitious work was underway and that, overall, the Commission had made progress towards reaching the target. However, the audit also flagged up a serious risk of falling short of the 20 % target (see [Figure 4](#)).

⁴ See the Commission’s communication “[Financing the green transition](#)”, January 2020, for more details. See also paragraph 9 “The performance framework for the Just Transition Fund” of the [ECA’s opinion°2/2020 on the Commission’s amended proposal of 14 January 2020 on the Common Provisions Regulation](#).

Figure 4 – Main findings of ECA special report 31/2016



Source: ECA, special report 31/2016.

Scope and approach

13 The objective of this review is to provide an overview of how the Commission tracks climate-related spending in the EU budget. In particular, we have focused on tracking climate action in agricultural, cohesion and research policy areas, which together account for the vast majority of climate-related spending. In this paper, we:

- review the Commission's methodology for tracking climate-related spending in the EU budget;
- discuss the commitment to spending at least one euro in five (20 %) of the 2014-2020 EU budget on climate action, review how the Commission acted on this commitment and reported on climate-related spending in the 2014-2020 MFF, and follow up on our previous report on the subject, [special report 31/2016](#);
- look into a more ambitious proposal to spend at least one euro in four (25 %) from the 2021-2027 EU budget on climate action.

14 This is not an audit report; it is a review mainly based on publicly available information or material specifically collected for this purpose. The ECA chose to carry out this review now because of the high levels of interest in the area from its stakeholders. The review aims to update ECA's previous analysis of climate tracking in the EU budget and place it in the context of the new MFF, as recommended by the European Parliament and the Council.

15 This review covers the expenditure side of the EU budget. The [Green Deal](#) notes that the revenue side of the budget may also contribute to achieving the climate objectives, but this is outside the scope of our review.

16 We discussed this paper with the Commission throughout the drafting process and took account of its feedback. The information presented in this review was obtained from:

- external reports, studies, papers and articles;
- relevant EU legislation adopted or proposed between 2015 and mid-2020;
- Commission working documents relevant to climate-related spending;



- questionnaires sent to the following Commission Directorates-General: Agriculture and Rural Development, Budget, Climate Action, Regional and Urban Policy, and Research and Innovation;
- consultation with the following stakeholders: [Climate Action Network Europe](#) and [Organisation for Economic Co-operation and Development \(OECD\)](#).

Tracking climate spending in the EU budget – a review

Methodology tracking climate spending in the EU budget

17 Since 1998, the OECD has monitored finance flows targeting the objectives of the Rio Conventions on biodiversity, climate change and desertification using the so-called 'Rio markers'. To track climate-related spending in the EU budget, the Commission adapted the OECD's Rio markers for climate, applying them to each EU policy area, programme or measure (see [Table 1](#)). The Commission applied the EU climate coefficients to quantify the expenditure contributing to the climate objectives. The OECD, however, did not design the Rio markers to produce exact figures, but to provide an indication of the level of mainstreaming of specific objectives, such as climate change.

Table 1 – OECD Rio markers versus EU climate coefficients

			
OECD Rio Marker	OECD Finance Flow/Activity	EU Funding/ Programme/Measure	EU Climate Coefficient
2	Activity for which climate is the principal objective ; it would not be funded but for that objective	Funding with a significant contribution to climate objectives	100 %
1	Activity for which climate is a significant (explicitly stated) objective , but not the essential objective	Funding with a moderate contribution to climate objectives	40 %
0	Activity not targeting the climate objectives of the Rio conventions in any significant way	Funding with no/ an insignificant contribution to climate objectives	0 %

Source: [Handbook on the OECD Climate Markers](#), and European Commission, [Funding for Climate Action](#).

18 Our [special report 31/2016](#) flagged up the following weaknesses in the EU approach to tracking climate spending:

- the EU climate coefficients applied in certain areas failed to respect the conservativeness principle⁵ in order to avoid overestimates in climate funding. This principle gives preference to under-reporting rather than over-reporting of climate data, in case of unavailability or uncertainty;
- the highest category in the OECD framework is activities principally aimed at achieving climate objectives. The EU applies a 100 % coefficient not just to these policies, but also to EU policies with a significant contribution to climate change – the intermediate category in the OECD classification (see [Table 1](#));
- the tracking method does not include EU spending on climate action via financial instruments;
- the EU does not track adaptation and mitigation actions separately.

19 The Commission commented on this approach in its replies to paragraphs 34-37 of our [special report 31/2016](#), pointing out the need to balance between the robustness of data and the administrative effort. Recently published studies focusing on agricultural policy also express concerns about the method adopted by the Commission. For example, one study suggests revising the application of the ‘Rio markers methodology’ to focus on mitigation, by registering only specific measures for greenhouse gas emission reduction rather than scheduled payments whose impact on emissions is currently unknown⁶.

20 Another publication⁷ agrees that the Commission’s method has the advantage of being simple and pragmatic, but points out that it can be misleading. For instance, expenditure that leads to an increase in emissions does not have a negative coefficient for negative impact. This would further deviate from the OECD Rio markers. The publication calls for a more demanding, but more accurate methodology aiming to estimate the carbon footprint of each action, helping to make the EU budget genuinely greener.

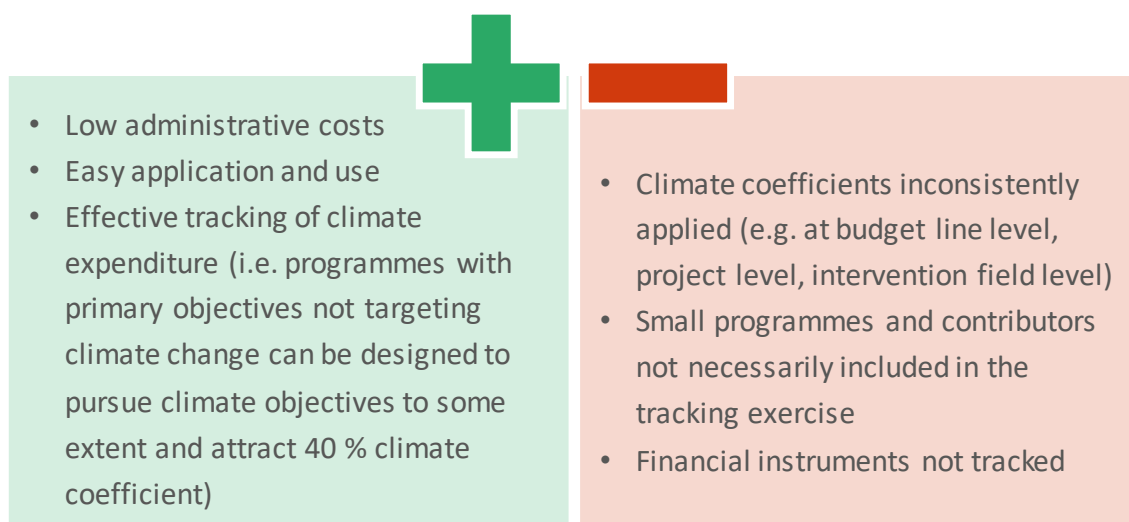
⁵ See the [Common Principles for Climate Mitigation Finance Tracking](#).

⁶ Pe'er, G., Bonn, A., Bruelheide, H. et al.: [Action needed for the EU Common Agricultural Policy to address sustainability challenges](#); *People Nat.* 2020; 00:1–12.

⁷ Claeys, G., Tagliapietra, S. and Zachmann, G.: [How to make the European Green Deal work](#); *Bruegel Policy Contribution*, Issue No°13, November 2019.

21 The Commission maintained this approach to tracking climate spending in the 2021-2027 MFF, pointing out the advantages of the method, but acknowledging its challenges in 2014-2020 (see [Figure 5](#)).

Figure 5 – Commission overview of the strengths and challenges of its method for tracking climate-related spending based on OECD Rio markers – 2014-2020 MFF



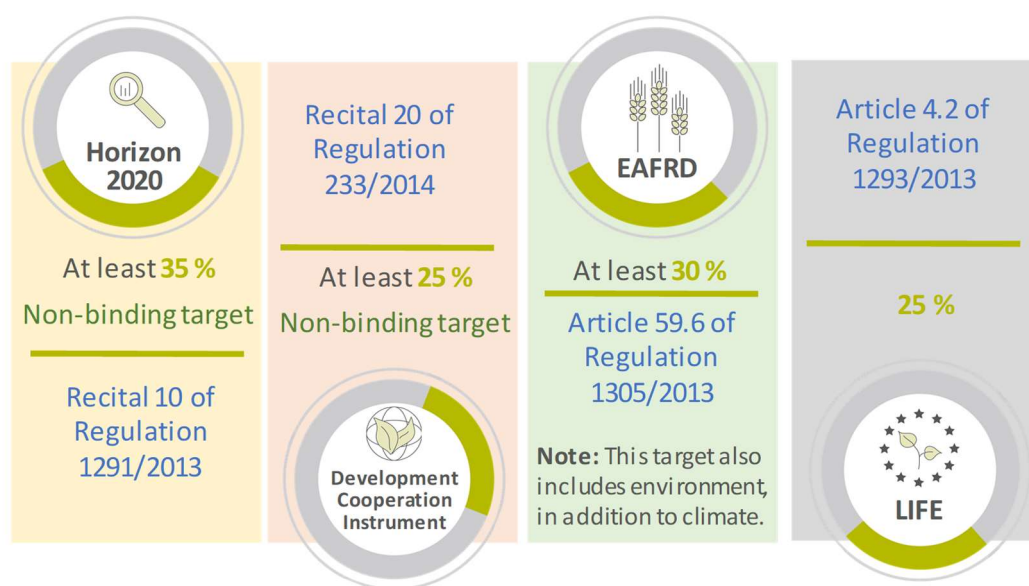
Source: Commission replies to ECA questionnaire.

22 In the 2021-2027 MFF, the Commission plans to track climate-related spending at project level for all direct management programmes, including small actions not previously included. It additionally plans to track climate-related investments financed by financial instruments, such as loans, guarantees or equity funding.

Climate spending – 2014-2020

23 To meet the commitment to spend at least 20 % of the 2014-2020 EU budget on climate action, specific targets were included in certain regulations to support climate-related spending (see [Figure 6](#)).

Figure 6 – Climate spending targets in EU legislation (2014-2020 MFF)



Source: ECA, based on EU Regulations.

24 As shown in [Figure 2](#), the Commission estimates that €206 billion, or 20 % of the 2014-2020 MFF, would contribute to climate objectives. According to the Commission's more recent reporting on climate-related spending in the 2014-2020 MFF⁸, "on average, the EU budget is on course to deliver 19.7 % for the 2014-2020 MFF". This percentage is updated annually, and the total amount recorded as spent on climate for this MFF period will only be confirmed after 2023, the last year for funding under 2014-2020 shared-management programmes.

Common Agricultural Policy

25 The Commission estimated that the largest contribution to the EU budget climate-spending target will come from the agricultural sector, from both direct payments and rural development. The Commission quantifies this at €102.8 billion for the 2014-2020 MFF⁹, representing 50 % of climate-action spending in this period.

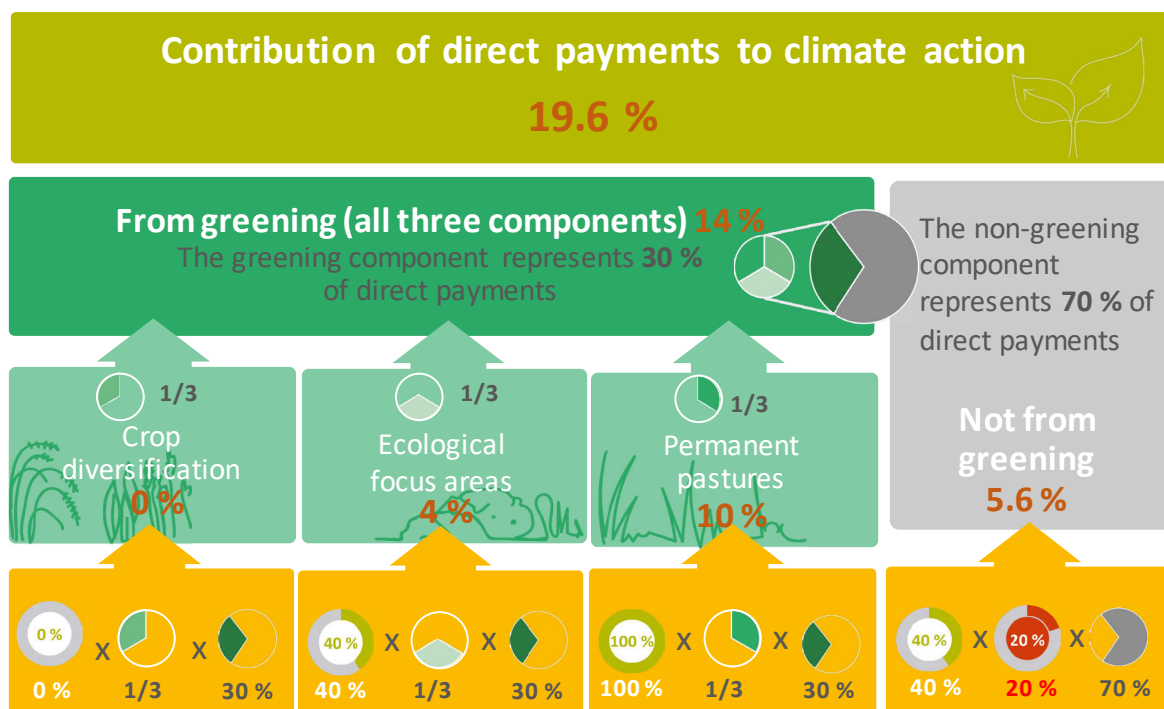
26 The Commission calculated that the contribution to climate-related spending from **direct payments** should be just under 20 % overall. This calculation differentiates between the three farming practices comprising the greening component of direct

⁸ COM(2019) 400, June 2019: "Programmes Performance Overview, EU Budget 2014-2020", p. 7.

⁹ Statement of Estimates of the European Commission for the financial year 2019, p. 110.

payments, and includes an adjustment of 20 % for the contribution from the non-greening component (see [Figure 7](#)).

Figure 7 – Commission’s calculation of contribution to climate action from agricultural direct payments



Source: ECA, based on the Commission’s 2014-2020 methodology for tracking climate-related spending for direct payments. See also Figure 7 in [special report 31/2016](#).

27 In [special report 31/2016](#), the ECA questioned the assumptions used in this model, pointing out that there was no sound justification for the 20 % adjustment applied to the non-greening component of the direct payments. The Commission justified this largely through the contribution expected from cross-compliance standards¹⁰, but only some cross-compliance requirements have potential climate benefits, and these do not apply to all recipients of direct payments. A different percentage, more in line with the principle of conservativeness, would have significantly reduced the overall contribution (e.g. changing the percentage from 20 % to 10 % would have resulted in a decrease of €9 billion). Other studies and articles confirm these concerns¹¹.

¹⁰ See the Commission’s replies to paragraphs 53 to 54 of [special report 31/2016](#).

¹¹ See Matthews, A.: [Climate mainstreaming the CAP in the EU budget: fact or fiction](#), 2020; Kelleher, L.: [Commission’s Dodgy Calculations Improve CAP’s Climate Impact](#), 2020; or Pe’er, G., Bonn, A., Bruelheide, H. et al.: [Action needed for the EU Common Agricultural Policy to address sustainability challenges](#); *People Nat.* 2020; 00:1–12.

28 We also found that some of the coefficients assigned to spending on rural development measures and activities did not observe the conservativeness principle, leading to overestimations. For example, the majority of payments for “areas facing natural constraints”, aiming to prevent land abandonment, were weighted at 100 %. Such payments are not linked to environment and climate objectives.

29 Our analysis of Member State rural development programmes in the same report showed that the Commission was overestimating their contribution to climate action by more than 40 %, or almost €24 billion. This is because the Commission did not adequately distinguish between climate contributions made by different activities. The Commission justified this approach by the need to strike a balance between minimising the administrative burden and costs and providing a reasonably reliable estimate for climate-related spending within the European Agricultural Fund for Rural Development (EAFRD) (see paragraph 43).

30 Our 2016 report concluded that, compared to 2007-2013, there had been no significant shift towards climate action in agricultural and rural development policies. Nor did we find significant changes in rural development management processes, such as revised climate-relevant requirements or eligibility and selection criteria. We did however identify several examples of good practice in some less material rural development measures, whose revised design made them more climate-friendly.

31 In May 2019, the Commission published a study¹² assessing the impact of the CAP on climate change and greenhouse gas emissions. The study found *inter alia* that the CAP had both positive and negative effects on greenhouse gas emissions.

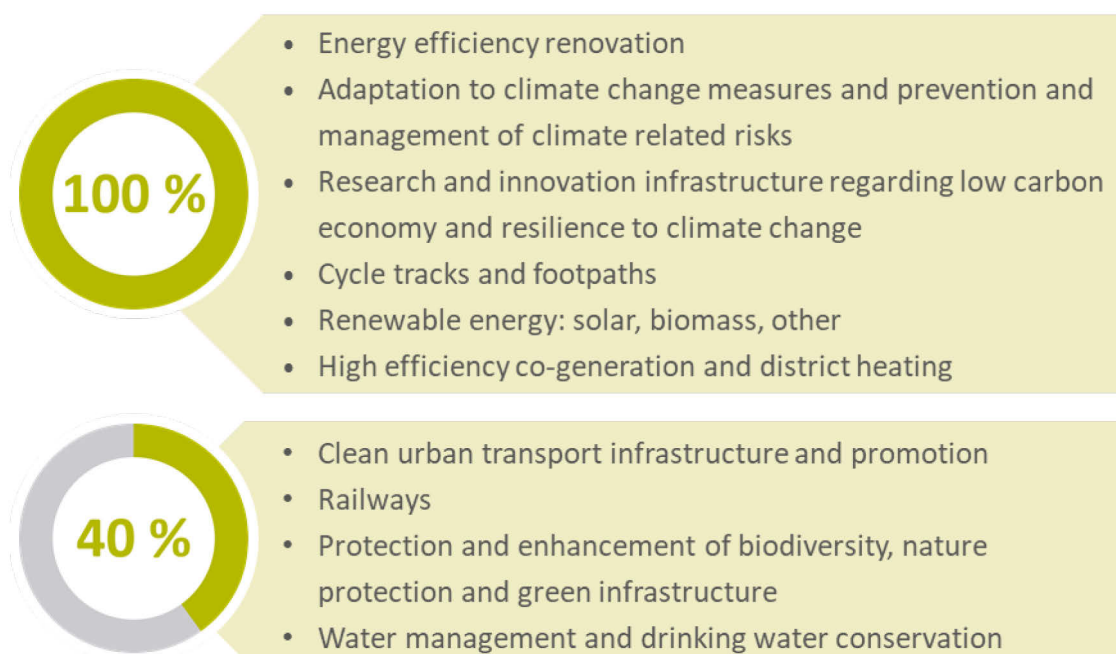
32 However, the method used to track the CAP’s contribution to tackling climate change does not take account of its support for agricultural activities with a potentially negative impact on climate change. These result in increased livestock breeding and fertiliser application, which release additional greenhouse gases into the atmosphere, but do not attract a negative climate marker. The Commission agrees that some Member States could improve the impact on climate through better selection or implementation of some rural development projects, but does not have an estimate of their overall effect.

¹² Evaluation study of the impact of the CAP on climate change and greenhouse gas emissions, Alliance Environnement, 2018.

European Regional Development Fund (ERDF) and Cohesion Fund (CF)

33 The Commission assesses the ERDF and the CF as significant contributors to the overall EU climate-spending target. For the 2014-2020 programme period, it expects these two funds to deliver more than €55 billion in EU budget investment in climate action¹³. This amount reflects the planned EU investments after application of the 100 %, 40 %, or 0 % weightings attached to specific ‘intervention fields’. **Figure 8** provides examples of the most relevant intervention fields for climate spending in 2014-2020.

Figure 8 – Most relevant intervention fields for climate action and their climate coefficients in ERDF and CF in 2014-2020



Source: ECA, based on the Commission's [Open Data Platform](#) and [Commission Implementing Regulation \(EC\) No 215/2014](#), Annex I.

34 The 2014-2020 cohesion policy framework allows expenditure with a potentially harmful impact on climate under specific conditions. For example, the policy could permit limited support to fossil fuels, if support is contingent on reductions in greenhouse gas emissions. These interventions have a 0 % climate weighting, although they still emit greenhouse gases.

35 Our [special report](#) also recognised the improved focus on climate achieved in the ERDF and the CF for 2014-2020 compared with the previous MFF, gave examples of good

¹³ Commission's [Open Data Platform](#) for European Structural and Investment Funds, as at 15 April 2020.

practice projects contributing to climate-related spending, and identified qualitative improvements in management processes and requirements to address climate change.

Research Policy – Horizon 2020

36 Research and innovation play an important role in achieving the EU climate objectives. The target for climate-related spending in the Horizon 2020 budget was set at 35 % (see [Figure 6](#)). This implies spending more than €26 billion from Horizon 2020 on climate over the 2014-2020 programme period.

37 Our [special report](#) pointed out that the contribution from research funding was falling significantly behind. We estimated that, to meet the 35 % target for 2014-2020, 47 % of Horizon 2020 spending in 2018-2020 would have to be climate-related. The Commission designed an action plan to address the slow progress towards the climate objective, proposing measures such as climate-related considerations in project proposal templates and award criteria, or budget amendments. We acknowledged the relevance of the action plan, but also flagged up the lack of quantifiable targets and models showing how to meet the 35 % target.

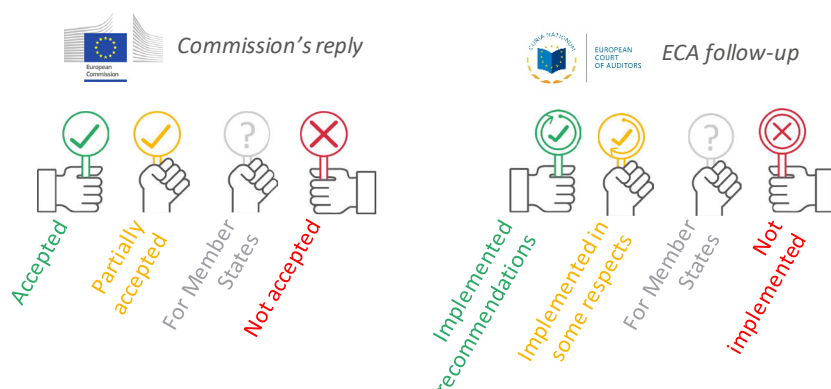
38 The Commission reported that, at the end of 2018, climate-related spending from Horizon 2020 had reached 30 % in commitments for climate action¹⁴, also noting that additional efforts were ongoing. Reaching the 35 % target remains challenging, mainly because over a quarter of the Horizon 2020 budget consists of research proposals not linked to a specific thematic objective (“bottom-up actions”), which are evaluated based on their scientific excellence, not on their contribution to climate. Thus, the contribution of these bottom-up actions to climate-related spending is uncertain at the planning stage.

Follow-up of special report 31/2016







39 Our [special report 31/2016](#) examined the EU’s political commitment to mainstreaming climate action across EU budget spending for the 2014-2020 MFF. The report included seven main recommendations divided into 12 sub-recommendations, of which the Commission accepted three, partially accepted six, and did not accept three. We followed up on these recommendations and our findings are summarised in [Table 2](#) below (see [Annex](#) for further details).

¹⁴ 2018 Annual Report on Research and Technological Development Activities of the European Union and Monitoring of Horizon 2020 (COM(2019) 315 final), p. 10.

Table 2 – Summary of the recommendations of special report 31/2016 and results of the follow-up work



Recommendations in special report 31/2016	Commission's reply	ECA follow-up
(1) A robust multi-annual consolidation exercise to monitor the 20 % target [Commission]		
(2) Comprehensive reporting framework for climate spending and the 20 % target		
(a) in annual and performance reporting, action plans, contribution of financial instruments [Commission]		
(b) in areas under shared management with potential for climate action [Member States]		
(c) differentiation between adaptation and mitigation [Commission and Member States]		
(3) Assessment of climate change needs, when planning potential contribution from funding instruments [Commission]		
(4) Correct overestimations in EAFRD [Commission and Member States]		
(5) Draw up action plans if contributions from specific areas may not be achieved [Commission]		
(6) Develop indicators monitoring spending on climate action and related results [Commission]		
(a) for implementation of climate action in shared-management areas		
(b) result indicators for areas contributing to the 20 % target		

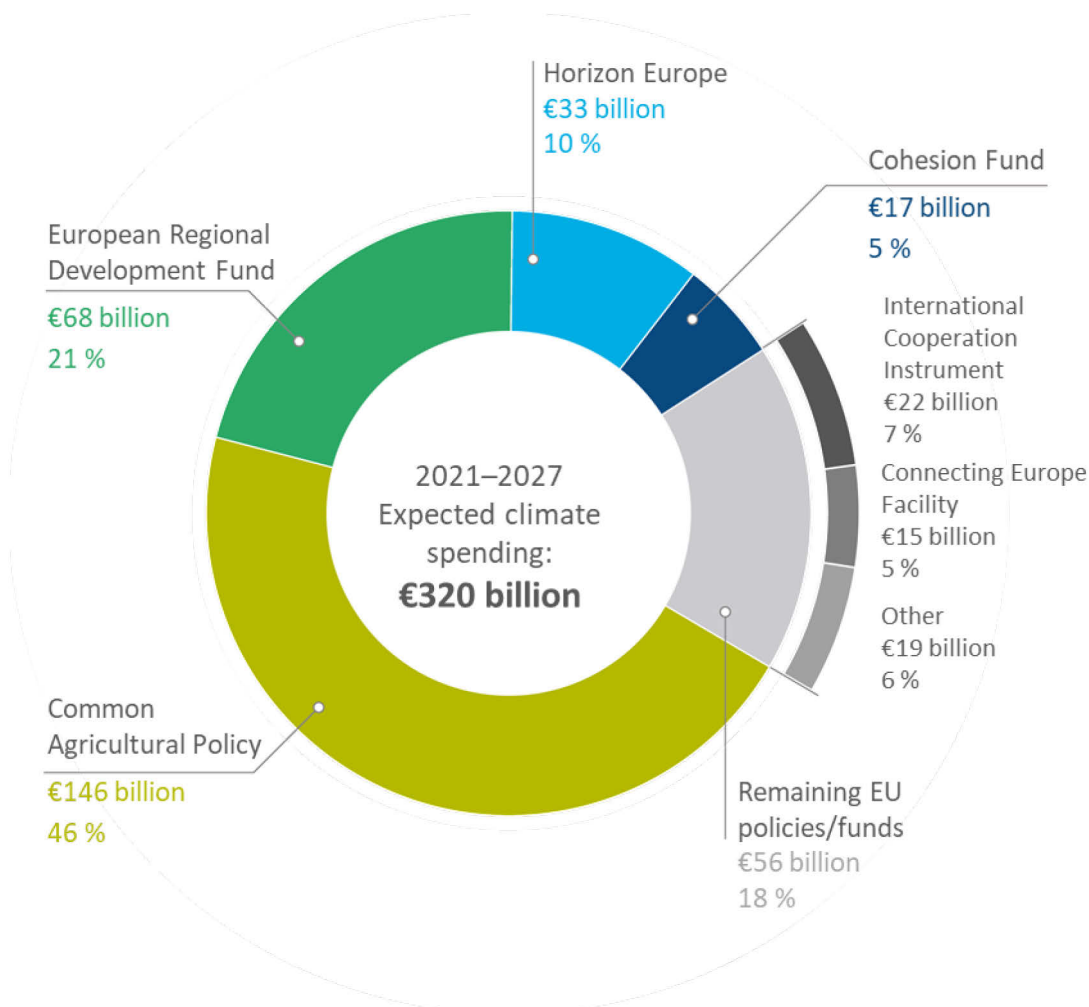
(c) exchange of good practices on climate-related result indicators		
(7) Explore all potential opportunities and ensure a real shift towards climate action [Commission]		
(a) identify areas with underutilised potential and develop action plans, if needed		
(b) increase climate mainstreaming in agriculture, rural development and fisheries		

Source: ECA.

Climate spending – 2021-2027

40 In 2018, the Commission increased its ambitions for climate mainstreaming across all EU programmes in the 2021-2027 programme period, with a target of 25 % of EU expenditure contributing to climate objectives (see paragraph [05](#)). According to [Figure 9](#), the largest contributions should come from agriculture (46 %), regional policy (26 %) and research activities (10 %).

Figure 9 – 2018 proposal for climate-related spending (2021-2027)



Source: ECA, based on the Commission's 2018 proposals for the Multiannual Financial Framework 2021-2027.

41 The final budget will depend on the outcome of the negotiations on the MFF and its specific programmes. In the reply to our questionnaire, the Commission highlighted the need for caution when considering proposals on climate spending, due to potential sudden and unpredictable changes to the social and economic environment, such as those caused by COVID-19.

Common Agricultural Policy



42 The CAP legislative proposals for the post-2020 period¹⁵, which have not yet been adopted, state that “actions under the CAP are expected to contribute 40 % of the overall financial envelope of the CAP to climate objectives”. In absolute terms, €146 billion (46 %)

¹⁵ Draft Strategic Plan Regulation, Recital 52.

of the anticipated €320 billion in climate action spending from the EU budget should be mobilised from the CAP.

43 The Commission intends to continue to track climate-related spending with the same basic methodology as for 2014-2020 ([Table 1](#)), though with revised weightings for the new CAP interventions, as shown in [Table 3](#). In its proposal for the post-2020 CAP, the Commission amends the weighting of the payments for areas with natural constraints from 100 % to 40 %.

Table 3 – Coefficients for CAP climate actions in 2021-2027

%	CAP schemes
	<ul style="list-style-type: none"> • Basic income support for sustainability – direct payments • Complementary income support – direct payments • Rural development payments for areas with natural constraints
	<ul style="list-style-type: none"> • Direct payment schemes for climate and environment (“eco-schemes”) • Rural development interventions for climate change and renewable energy • Rural development interventions to foster sustainable development and efficient management of natural resources • Rural development interventions contributing to protecting biodiversity, enhancing ecosystem services and preserving habitats and landscapes

Source: COM(2018) 392 final, “Proposal for a Regulation establishing rules on support for strategic plans”, Article 87.

44 The anticipated CAP contribution to climate action rose from 28 % for 2014-2020 to 40 % for 2021-2027. This is due to the increased estimated contribution of direct payment schemes from just under 20 % to 40 %, partly countered by the exclusion of coupled payments and income support for young farmers from the calculation. The Commission justifies the increased contribution through the new “enhanced conditionality”, which combines the former cross-compliance with streamlined greening practices, together with new requirements. The ECA commented on this in its [Opinion on the post-2020 CAP proposals](#) (see [Box 1](#)).

Box 1

ECA assessment of the CAP contribution to climate spending in its Opinion 7/2018 concerning the Commission's proposals for regulations relating to the common agricultural policy for the post-2020 period

"The biggest contribution to the [climate] expenditure target is the weighting of 40 % for basic income support. [...] **We find the estimated CAP contribution towards climate change objectives unrealistic.** Overestimating the CAP contribution could lead to lower financial contributions for other policy areas, thus reducing the overall contribution of EU spending to climate change mitigation and adaptation. Instead of using the weighting of 40 % for all direct payment support, a more reliable way to estimate the contribution would be to use this weighting only for direct payment support for areas where farmers actually apply practices to mitigate climate change".

45 Some articles on the subject also find that the CAP contribution to climate-related spending may have been overestimated. One concludes: "there is no justification for increasing the weighting further from 19.5 % to 40 % except to allow Member States to massage the figures and make it look as though they are doing more for climate than they actually are. The Commission has failed to provide any justification why the enhanced conditionality attached to the basic income support and redistributive payments would warrant a 40 % climate marker. There is the purely formalistic argument that, because some of the conditions may help to lower emissions or improve resilience, a marker greater than 0 % is warranted and the next step is 40 %" ¹⁶.

46 Another study expressed the same concern ¹⁷: "Although the proposals for basic income support for 2021-2027 may appear to be a little more ambitious on paper, this does not seem sufficient to justify a doubling of the existing climate marker which in itself was already criticised as likely to be an overestimate under the current period". As far as enhanced conditionality is concerned, according to the Institute of European Environmental Policy (IEEP), "there is little evidence that income support payments and eligibility rules are per se beneficial for climate and, instead, evidence suggests that in some cases they can be counterproductive. There is therefore no justification to be found

¹⁶ Matthews, A.: [Climate mainstreaming the CAP in the EU budget: fact or fiction](#), 2020.

¹⁷ Bas-Defossez, F., Hart K. and Mottershead, D.: [Keeping track of climate delivery in the CAP? Report for NABU by the IEEP](#), 2020.

for the proposed doubling of the climate marker in the nature of the payments themselves.”

47 Some papers made relevant recommendations for improving the methodology for tracking climate-related spending within the CAP (see [Box 2](#)).

Box 2

Recommendations on tracking CAP climate spending

Based on:

- (A) "Climate-friendly design of the EU Common Agricultural Policy", Discussion Paper, by Bastian Lotz, Yannick Monschauer and Moritz Schäfer;
- (B) "Climate mainstreaming the CAP in the EU budget: fact or fiction", by Alan Matthews; and
- (C) "Climate-friendly design of the overall EU budget, Discussion Paper", by Moritz Schäfer, Yannick Monschauer and Finn-Rasmus Hingst

- Use the 40 % weighting factor only for some direct payments, either in areas where such payments lead to actual changes in farming practices that promote climate change mitigation, e.g. protecting wetland and peatland, or where payments are necessary to maintain such farming practices. This would, however, require a more complex case-by-case approach and would likely lead to a greater administrative burden. (A)
- Use an additional factor before the 40 % climate coefficient, set conservatively to avoid overestimating climate contributions. This could, for instance, account for:
 - the share of climate-relevant Good Agricultural and Environmental Conditions (GAECs);
 - a risk factor to reflect inconsistent levels of ambition in national standards;
 - the share of farmland with an expected change towards more climate-friendly farming practices. (A)
- Use the 100 % weighting factor cautiously and only when relevant, such as:
 - for CAP eco-schemes, but only if they involve climate-relevant interventions (e.g. not for eco-schemes to protect biodiversity);
 - for rural development commitments, but only if the financed intervention mainly contributes to climate mitigation rather than other






environmental objectives. This should be assessed primarily on a case-by-case basis in line with the interventions designed at national level. **(A)**







- If maintained, the Commission's three climate weightings of 0 %, 40 % and 100 % should be applied at the most disaggregated level of intervention possible. **(B)**
- One possible approach would be to try to quantify the climate impact of the enhanced conditionality requirements for a sample of sites covering different farming systems, soil types and climate zones across the EU. **(B)**
- Climate tracking should take into consideration the netting off of CAP payments leading to a negative climate impact, such as coupled livestock payments or investment support for unsustainable irrigation practices. **(B)**
- Climate quota should be defined as a net target, i.e. additional climate-related expenditure should compensate for all investments with a negative climate impact. **(C)**

European Regional Development Fund (ERDF) and Cohesion Fund (CF)

48 In the area of cohesion policy, the Commission set the target contribution to climate objectives at 30 % for the ERDF (€68 billion) and 37 % for the CF (€17 billion) for 2021-2027 (see [Figure 9](#)). As in the previous MFF, the expenditure is divided among the so-called “intervention fields”, each assigned one of the three climate coefficients. The main changes regarding climate coefficients for the intervention fields compared to 2014-2020 are summarised in [Table 4](#).

Table 4 – Changes in intervention fields and coefficients relevant to climate-related spending for 2021-2027

Intervention field	2014-2020	2021-2027
Railways		
newly built		
reconstructed or improved		
Clean urban transport infrastructure and rolling stock		

Alternative fuels infrastructure	-	
Digitising transport (rail, road, urban, other)	-	
Research and innovation processes, technology transfer and cooperation between enterprises focusing on circular economy	-	
Smart Energy Distribution Systems at medium and low voltage levels	-	
Support to enterprises whose services contribute to the low carbon economy	-	
Productive investment in large enterprises linked to the low-carbon economy	-	

Source: Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the ERDF, the ESF Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund - COM(2018) 375 final, Annex I, and Commission Implementing Regulation (EC) No 215/2014, Annex I.

49 The [proposal for ERDF and Cohesion Fund Regulation](#) explicitly excludes from its scope investments related to the production, processing, distribution storage or combustion of fossil fuels, with the exception of clean vehicles. One publication¹⁸ noted inconsistencies between certain percentages assigned to track climate action and the climate objectives for 2021-2027 (see also [Table 4](#) and [Figure 8](#)):

- the 100 % coefficient for grants for “High efficiency cogeneration, district heating and cooling” in practice opens the door to lifetime extension of fossil fuel based installations;
- the 100 % coefficient for funding for “Alternative fuels infrastructure” promotes the use of fossil fuels in the transport sector, thus hindering the transition towards zero-emission mobility;
- the 100 % coefficient to fund new railways deviates from the investment focus on the transition towards zero-emission mobility.

The Commission does not share the views of the publication cited, arguing that these investments make a significant contribution to achieving climate objectives.

¹⁸ [Climate Action Network Europe](#): Climate Mainstreaming and Climate Proofing: The Horizontal Integration of Climate Action in the EU Budget – Assessment and Recommendations, August 2018.

Research Policy – Horizon Europe

50 Horizon Europe is the 2021-2027 EU-wide research programme. Its expected contribution to climate objectives remains at 35 %; in the Commission’s initial proposal, this will be the equivalent of €33 billion for 2021-2027 (see [Figure 9](#)).

51 The [Green Deal](#) recognises the critical role of mobilising research and fostering innovation to achieve its objectives. Four “Green Deal Missions” will therefore help Horizon Europe to deliver large-scale changes in areas such as adaptation to climate change, oceans, cities and soil. The Commission expects these missions to bring together a wide range of participants including local and regional authorities and individuals.

52 In its reply to our questionnaire, the Commission admits that reaching the 35 % target will be achievable, yet challenging, highlighting the need for clear top-down priority and expectation setting, in contrast to the importance of bottom-up actions within the programme, for which the outcome is unpredictable (see paragraph [38](#)).







53 The EU is promoting the transition of low-carbon technologies from research to market uptake. Scientists¹⁹ have raised doubts as to whether these ambitious plans are achievable in the short to medium term. They point out the challenge of bringing to market innovative low-carbon technologies such as carbon capture and storage²⁰ or hydrogen, and in many cases, the regulatory environment is not yet adapted for this. The current level of carbon prices means that new technologies often cannot be profitable in the short or medium term and the necessary infrastructure is often still lacking.

¹⁹ Delbeke, J. and Vis, P.: [Towards a Climate-Neutral Europe: Curbing the Trend](#), 2019.

²⁰ See also [ECA special report 24/2018: Demonstrating carbon capture and storage and innovative renewables at commercial scale in the EU: intended progress not achieved in the past decade](#).

Tracking climate spending in the EU budget – Summary

54 Tackling climate change is a high priority for the EU. Setting a target percentage of the EU budget to be spent on climate action can be an effective step in working towards climate objectives. The key issues discussed in this review are summarised below.

<p>2014-2020 EU-28</p> <p>Target: €206 billion (20 % - one euro in five)</p> 	<p>2021-2027 EU-27</p> <p>Target: €320 billion (25 % - one euro in four)</p> 
<p>Methodology to track climate spending in the EU budget – inspired from the OECD's Rio markers</p> 	<ul style="list-style-type: none"> + Low administrative costs + Easy application and use - Not conservative - Maximum (100 %) credit for activities with a significant, but not principal objective towards climate objectives - No differentiation between mitigation and adaptation - No accounting for spending with negative impact on climate
<p>Contribution to climate spending from the Common Agricultural Policy</p> 	<ul style="list-style-type: none"> + The largest expected contribution to climate spending + Increased expected contribution in 2021-2027 - Direct payments: unjustified assumptions on climate target contributions; the contribution estimated as double in 2021-2027 compared to 2014-2020 - Rural development: overestimated contribution, despite some improvements in 2021-2027 - Agricultural activities with a potentially negative impact on climate: not accounted for
<p>Contribution to climate spending from ERDF and CF</p> 	<ul style="list-style-type: none"> + Improved focus on climate in 2014-2020 compared to the previous period; good practices identified - Activities with limited support to fossil fuels: potentially negative impact on climate not accounted for
<p>Contribution to climate spending from the research policy</p> 	<ul style="list-style-type: none"> + Action plan to boost climate spending from research - Challenges to achieve the target due to limitations to plan research proposals linked to climate action

55 Looking ahead, we identified the following key challenges as a basis for reliable and relevant reporting on the climate-spending target:





- ensuring a robust methodology for tracking climate spending;
- consistently applying the methodology across all policy areas;
- offsetting expenditure likely to speed up climate change.







This Review was adopted by Chamber I, headed by Mr Samo Jereb, Member of the Court of Auditors, in Luxembourg at its meeting of 17 June 2020.





For the Court of Auditors







Klaus-Heiner Lehne
President





Annex – ECA follow-up of special report 31/2016

Recommendations	Commission's reply	ECA follow-up
Recommendation 1 – Robust multi-annual consolidation exercise	Accepted 	Implemented 
The Commission should carry out annually, a robust, multi-annual consolidation exercise to identify whether climate expenditure is on track to achieve the 20 % target.	The Commission plans to continue monitoring progress annually in the context of preparing annual draft budgets.	The Commission carries out a consolidation exercise annually to identify whether programmed climate expenditure is on track to achieve the 20 % target. This is published in the <i>Annual Management and Performance Report for the EU Budget</i> and the yearly <i>Draft General Budget</i> . Starting from 2019, climate figures are also presented in the <i>Programme Performance Overview</i> .
Recommendation 2 – Comprehensive reporting framework		
Recommendation 2 (a)	Partially accepted 	Implemented in some respects 
The Commission should report, annually, consolidated information on the progress towards the overall 20 % target in its annual management and performance report and in each relevant annual activity report. This should include reporting on progress on action plans where they exist. In addition information on the climate contribution of financial instruments should be reported.	The Commission accepts to show relevant aspects of, and progress made on, climate action in the relevant AARs as appropriate. The Commission does not accept the recommendation to report on financial instruments in the context of tracking budgetary effort towards the 20 % target.	Reporting on climate-related spending takes place via the <i>Annual Management and Performance Report for the EU Budget</i> , the <i>Draft General Budget</i> and the <i>Programme Performance Overview</i> . Some Annual Activity Reports contain limited information on the progress made towards achieving programme-specific climate targets. There are no new action plans, other than the Horizon 2020 action plan mentioned in special report 31/2016 . In the current MFF, financial instruments are not tracked for climate, although this is due to change in the next MFF.

Recommendations	Commission's reply	ECA follow-up
Recommendation 2 (b)	Addressed to Member States 	Not in scope 
Member States should report on the areas under shared management where there are potential opportunities for climate action.	The Commission notes that this recommendation is addressed to the Member States.	The scope of the ECA follow-up covers the recommendations made to the Commission.
Recommendation 2 (c)	Not accepted 	Not implemented 
The Commission and the Member States should ensure that data collection differentiates between mitigation and adaptation.	The implications of such additional administrative burden imposed on both the Commission and the Member States are unclear.	The Commission did not take any action towards implementation.
Recommendation 3 – Assessment of climate change needs	Partially accepted 	Implemented in some respects 
When planning the potential contribution to climate action from individual budget lines or funding instruments, the Commission should ensure that such plans are based on a realistic and robust assessment of the climate change needs and on each area's potential to contribute to the overall target.	The Commission accepts to consider the climate change needs and the potential to contribute of different areas when proposing a new overall political target. The Commission does not accept to plan specific contributions for each area or programme.	The Commission funded the external study on financing needs to provide a review of the current arrangements for climate mainstreaming and tracking climate-related expenditure. It discusses the financing needs for achieving the climate mainstreaming target, rather than climate change needs. It is unclear whether the expected percentage of climate-related spending under individual programmes was based on realistic assumptions. The negotiation process for the future MFF is still ongoing.

Recommendations	Commission's reply	ECA follow-up
Recommendation 4 – Correct overestimations	Partially accepted 	Implemented in some respects 
The Commission and the Member States should apply the principle of conservativeness and correct the overestimations in the EAFRD by reviewing the EU climate coefficients set.	The tracking methodology needs to remain stable during the current MFF for reasons of predictability, consistency and transparency. However, the Commission will consider ways of fine-tuning the tracking methodology for the EAFRD for the post-2020 programming period.	In the proposal for the post-2020 CAP, the coefficient rate has been reduced from 100 % to 40 % for payments to compensate for natural or other area-specific constraints. The proposed 100 % coefficient rate for environmental and climate commitments is not in line with the conservativeness principle. The proposal for the future CAP is still being examined at Council level.
Recommendation 5 – Draw up action plans	Partially accepted 	Not implemented 
Whenever the annual consolidation exercise reveals a risk that the expected contributions from a particular area may not be achieved, the Commission should draw up an action plan for that area.	The Commission will assess opportunities to increase climate relevance in the context of the Mid-term Reviews of individual programmes and policies. Pending the outcome of these reviews, the Commission will consider corrective action. Instituting individual action plans would not be appropriate as individual programmes already provide processes for priority setting depending on the management mode.	The Commission devoted particular attention and a substantial budget to climate action in the Horizon 2020 Work Programme for 2018-2020. This had already started prior to the publication of SR 31/2016. The Commission did not draw up any other action plans. Instead, the Commission opted to check the budget procedure annually to ensure that climate-related spending is on track to meet the target.

Recommendations	Commission's reply	ECA follow-up
Recommendation 6 – Develop indicators monitoring actual spending on climate action and related results		
Recommendation 6 (a)	Not accepted 	Not implemented 
The Commission should, in cooperation with the Member States , in the area of shared management, develop a harmonised and proportionate system for monitoring the actual implementation of climate action.	This recommendation would lead to an increase in the level of the administrative burden imposed on Member States which was not foreseen under the current regulations and were not included in the partnership agreements and Operational Programmes.	The Commission did not take any action towards implementation.
Recommendation 6 (b)	Accepted 	Implemented in some respects 
The Commission should, in line with its 'budget for results' initiative, establish climate-related result indicators in all areas that contribute towards the achievement of the target.	The Commission will strengthen and improve comparability of the climate-related results indicators in all EU budget areas, and will consider options in the context of the next MFF to establish climate-related results indicators to assess the EU budget contribution to climate action.	The Commission has included climate-related result indicators in the proposals for the post-2020 CAP and ERDF/CF, but not in all areas. The proposals for the post-2020 CAP and ERDF/CF are under consideration, and therefore have not yet been adopted.
Recommendation 6 (c)	Accepted 	Implemented 
The Commission should facilitate the exchange of good practice on climate-related result indicators between Member States.	The Commission will continue to actively promote the exchange of good practices also in the specific area of climate-related result indicators.	The Commission has taken action, through expert meetings, studies, workshops, and platforms, to share good practices

Recommendations	Commission's reply	ECA follow-up
		on climate-related result indicators between Member States.
Recommendation 7 – Explore all potential opportunities and ensure a real shift towards climate action		
Recommendation 7 (a)	Partially accepted 	Not implemented 
The Commission should identify those areas with underutilised potential for climate action, such as the European Social Fund, and develop action plans for increasing the climate action contribution of these areas.	In the same sense as for Recommendation 5, i.e. that the Commission will identify the areas with under-utilised potential and consider opportunities and actions to increase climate relevance in their spending programmes in the context of their individual Mid-term Reviews. However, it will not develop specific action plans on climate spending for individual programmes.	The Commission did not develop action plans on climate action for other specific areas, with the exception of the Horizon 2020 work programme for 2018-2020, noted in special report 31/2016.
Recommendation 7 (b)	Not accepted 	Implemented in some respects 
The Commission and Member States should increase the mainstreaming of climate action in agriculture, rural development and fisheries.	Changing the multiannual financial programming at this stage in ESIF programmes managed under shared management is neither practicable nor feasible. At the same time the Commission will consider options to strengthen climate mainstreaming in the context of the midterm reviews of individual programmes.	The Commission proposed to increase the climate mainstreaming target in the post-2020 CAP. Despite the Commission's strong commitment to addressing climate change, it remains unclear at this stage whether this will contribute to increasing climate action spending. The post-2020 CAP proposals are under negotiation, so have not yet been adopted.

Terms and abbreviations

Climate action: Action to address climate change and its impact; one of the 17 UN Sustainable Development Goals.

Climate mainstreaming: Incorporating climate-related considerations in all policies, instruments, programmes and funds.

Climate-spending tracking: Measuring the financial contribution to climate objectives from different sources.

Cohesion Fund (CF): An EU fund for reducing economic and social disparities in the EU by funding investments in Member States where the gross national income per inhabitant is less than 90 % of the EU average.

Common agricultural policy (CAP): An EU policy comprising subsidies and a range of other measures designed to guarantee food security, ensure a fair standard of living for the EU's farmers, promote rural development and protect the environment.

Conditionality: System replacing cross-compliance and greening in the post-2020 CAP to promote farming practices which benefit the climate and the environment and promote animal welfare and food safety.

Cross-compliance: A mechanism whereby payments to farmers are dependent on their meeting requirements on the environment, food safety, animal health and welfare, and land management.

Direct payment: An agricultural support payment, such as area-related aid, made directly to farmers.

European Agricultural Fund for Rural Development (EAFRD): An EU fund for financing the EU's contribution to rural development programmes.

European Regional Development Fund (ERDF): An EU fund that strengthens economic and social cohesion in the EU by financing investments that reduce imbalances between its regions.

European Social Fund (ESF): An EU fund for creating educational and employment opportunities and improving the situation of people at risk of poverty.

Good agricultural and environmental condition (GAEC): The state in which farmers must keep all agricultural land, especially land not currently used for production, in

order to receive certain payments under the CAP. Includes issues such as water and soil management.

Greenhouse gas: A gas in the atmosphere - such as carbon dioxide or methane - that absorbs and emits radiation, trapping heat and so warming the Earth's surface through what is known as the greenhouse effect.

Greening: The adoption of agricultural practices that benefit the climate and the environment. Also commonly used to refer to the related EU support scheme.

Horizon 2020: The EU's research and innovation programme for 2014-2020.

Horizon Europe: The EU's research and innovation programme for 2021-2027.

Multiannual Financial Framework (MFF): The EU's spending plan setting priorities (based on policy objectives) and ceilings, under six main headings, generally for seven years. It provides the structure within which annual EU budgets are set, limiting spending for each category of expenditure. The current MFF covers 2014-2020.

Organisation for Economic Co-operation and Development (OECD).

Sustainable Development Goals (SDGs): The 17 goals set in the United Nations 2030 Agenda for Sustainable Development to stimulate action by all countries in areas of critical importance for humanity and the planet.

ECA team

ECA Review – Tracking climate spending in the EU budget

This review was adopted by Chamber I, headed by ECA Member Samo Jereb. The task was led by ECA Member Joëlle Elvinger, supported by Ildikó Preiss, Head of Private Office; Charlotta Törneling, Private Office Attaché; Colm Friel, Principal Manager; Ramona Bortnowschi, Head of Task; Jan Huth, Deputy Head of Task; Bertrand Tanguy, Auditor; and Marika Meisenzahl, Graphic Design.

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The Commission committed to spending at least 20 % of the 2014-2020 EU budget on climate action by integrating climate-related spending into all EU policies. This target rose to 25 % for 2021-2027. Tracking climate spending allows the Commission to assess whether it is meeting this target. Building on our previous work on the subject, this paper reviews the methodology for tracking climate spending in the EU budget, discusses the progress made towards the target and looks ahead to the post-2020 period. The review questions some of the Commission's assumptions and flags up the risk of overstating climate spending. It outlines the improvements made in current legislative proposals, but indicates that methodological flaws and challenges remain.

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