



European Economic and Social Committee



INVESTMENT IN IMPROVING THE ENVIRONMENT AND REMEDIATION OF ENVIRONMENTAL DAMAGE

Comparative Study of Different Measures
Funded through the Use
of Economic Environmental Instruments

KEY MESSAGES

2013



Civil Society Engagement

- There are a number of formal mechanisms in place to promote civil society, as well as numerous examples of interesting practices in the EU aiming to involve civil society in MBIs.
- There is potential to improve practices that enhance the role of civil society in MBIs including the timing of consultation and general transparency. The appropriate involvement of civil society will be a reflection of the context, and in some cases, the need to enhance the credibility of the MBI in question.

Summary and Way Forward

- There is currently a lack of guidance in relation to effective earmarking of EUA auctioning revenue and the precise role of civil society. The proposed “good practice” guidelines, are intended to contribute to an anticipated debate regarding the potential for civil society to effectively engage in the allocation of auctioning revenue by both the EU and Member States.
- The effective utilisation of revenue from MBIs is a way to achieve environmental improvements in line with the promotion of a Green Economy. Given the existing shortfall in climate finance, the revenue generating potential of EUA auctioning should not be overlooked. Member States should consider supporting effective earmarking practices, and the benefits of involving civil society in the allocation and expenditure of earmarked revenue.



In July 2011, the European Economic and Social Committee (EESC) commissioned a study on the impact of measures funded through EU environmental instruments.

The aim was to have an overview of the current position as regards investing EU funds in environmental projects, to evaluate the effectiveness of these investments in securing environmental improvements, and to establish best practice.

The final document provides enhanced information on funding environmental measures; this brochure gives an overview of the main findings of the study.

Market Based Instruments (MBIs)

- There is a diverse and evolving use of Market Based Instruments (MBIs) to leverage environmental improvements within and across Member States of the EU. MBIs vary with respect to their contextual application, scope and ambition. Their design impacts their direct incentive effect and their ability to generate revenue, while offering different opportunities for the engagement of civil society.
- The application of the EU subsidiarity principle has shaped implementation of MBIs at the national level. Member States maintain full competency and sovereignty for market based instruments in general, with some exceptions as agreed to within the scope of European legal frameworks.

Revenue Raising and Earmarking

- The current demand for climate finance warrants careful consideration of the revenue available through MBIs.
- All MBIs have the ability to generate revenue, but the volume and specific utilisation of this revenue can vary. The potential to “earmark” revenue varies according to different MBIs given their different objectives, and the national circumstances surrounding their implementation.

EU Emission Trading Scheme (EU-ETS)

- The revenue raised through the auctioning of European Union Allowances (EUAs) from EU-ETS, offers a particularly important opportunity to fund environmental improvements throughout the EU, and to meet the shortfall in international climate finance.
- The EU-ETS has evolved since its inception in 2005. The potential to stimulate a prolonged demand for greenhouse gas reductions has required a transition from the free allocation of carbon credits (European Union Allowances or EUAs) in the first two phases of the scheme (2005-2007 and 2008-2012), to the gradual phasing in of the auctioning of EUAs up to 2020. In the long run, increasing rates of auctioning will increase EUA scarcity thus raising the price of carbon, and the potential to generate more government revenue.



- While the EU-ETS Directive (2009/29/EC) requires Member States to invest at least 50% of auctioning revenue into a list of recommended climate funds and project types (internationally and within the EU), earmarking is not legally mandated at the Member State level given national practices and legal constraints.

Effectiveness of MBIs and the Role of Earmarking

- The effectiveness of MBIs in leveraging environmental improvements can be attributed to a number of different factors including:
 - (a) *timing and policy longevity,*
 - (b) *price signals and high elasticity of demand,*
 - (c) *the allocation and use of revenues,*
 - (d) *transparency of reported environmental data,*
 - (e) *civil society engagement,*
 - (f) *the level of institutional capacity and other national constraints or circumstances,*
 - (g) *effective earmarking.*
- There is evidence to suggest that effective earmarking can enhance the effectiveness of MBIs, and their ability to leverage environmental improvements. Earmarking can result in long term fiscal obligations, providing governments with less flexibility in terms of allocating revenue to specific policy priorities. However, earmarking is also a useful way of protecting longer term policy issues from shifting government priorities.
- Earmarking is also used as a way of ensuring that the transparency of budgetary practices is maintained, thus allowing for the engagement of civil society. Earmarking is seen as a positive means for engendering public support in MBIs and trust in government, as a correlation between environmental objectives and the use of revenue can be easily observed.



To read the full report:
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