



Brussels, 18 February 2019
(OR. en)

6260/19

ENV 126
ECOFIN 143
UEM 39
SOC 86
EMPL 61
COMPET 122
EDUC 59
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JAI 115

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	14443/18 - COM(2018) 770 final
Subject:	Greening the European Semester - Exchange of views

1. On 21 November 2018, the Commission presented its Communication on the Annual Growth Survey (AGS) *. The AGS 2019, entitled "*For a stronger Europe in the face of global uncertainty*" outlines the most pressing general economic and social priorities for the coming months and sets a number of policy recommendations for the EU and its Member States to deliver inclusive and sustainable growth.

* 14443/18 - COM(2018) 770 final.

2. For the year 2019, the Commission considers that, at national level, policy efforts should focus on delivering high-quality investment, on implementing reforms that increase productivity growth, inclusiveness and institutional capacity, and on ensuring macro-financial stability and sound public finances. At EU level, the Commission identified as priorities the deepening of the Single Market, completing the architecture of the Economic and Monetary Union (EMU) and advancing the principles set out in the European Pillar of Social Rights.
3. In order to guide the exchange of views on Greening the European Semester at the forthcoming meeting of the Council (Environment) on 5 March 2019, the Presidency has prepared a background note and two questions, as set out in the Annex to this note. The Ministerial discussion will be subsequently summarized in the joint synthesis report to the General Affairs Council with a view to prepare the European Council in March 2019.
4. The Committee of the Permanent Representatives is invited to take note of the Presidency's background note and questions and to forward them to the Council for the abovementioned exchange of views.
5. The Presidency invites delegations to send written contributions before the Council meeting.

Greening the European Semester**- Exchange of views -****Presidency background paper with questions for Ministers*****The European Semester: an opportunity to promote sustainable investments***

The European Semester is a unique opportunity to integrate environmental concerns into broader economic and investment policies. The mainstreaming of environmental integration in EU policies and activities is an obligation stemming from the Treaties and responds to the ever more pressing need to achieve a sustainable society. Its effectiveness is essential to ensure consistency in EU investments, with a view to promoting sustainable development and supporting structural reforms. This is reflected in the **European Council** conclusions of December 2018, which underline "the need for the Single Market to evolve so that it fully embraces (...) the transition to a greener economy and for strengthening the coherence with all related policies" ¹.

The Annual Growth Survey 2019 (AGS 2019) ² states that well-targeted public and private investment should go hand in hand with a well-designed set of structural reforms so as to ultimately deliver on the EU's objective of moving towards a low-carbon, circular economy, in support of long-term sustainability.

AGS 2019 also outlines that investments enhancing environmental sustainability can boost productivity across the economy through greater resource efficiency and reduced input costs.

¹ EUCO 17/18.

² 14443/18 - COM(2018) 770 final.

Continued decoupling of energy and resource use from economic growth is needed to achieve the EU's 2030 climate and energy targets, in line with commitments under the Paris Agreement. Therefore, investing in a low-carbon, circular economy, including through innovation, is key to Europe remaining globally competitive and raising productivity without compromising living standards.

Finally, AGS 2019 points out that upgrading transport infrastructure and investing in smart, sustainable and safe mobility, including zero-emission mobility, remains a challenge in a number of Member States. Private investments need to be more fully exploited: regionally integrated networks and local initiatives should be further developed to finance businesses and promote decarbonisation and the transition to a more sustainable economy.

Not least, well-performing public institutions contribute to higher growth and are a precondition for the successful delivery of other reforms.

1. The Single market transition towards a greener economy

The European Semester is a powerful lever to support transition towards new growth opportunities based on sustainable investments and to integrate society and citizens' environmental concerns into broader economic policies. So far, the EU environmental *acquis* and policies have defined high standards of environmental protection within the Single Market for the benefit of all Europeans.

The 2018 global risks report of the World Economic Forum ³ found that the bulk of the top 10 risks threatening the economy and social well-being in terms of likelihood are all related to the key components of natural capital: air/climate, water, land, and biodiversity. Investments need to be resilient or risk-proofed against all major components of our natural capital. The private sector is already alert to this issue and is moving towards more sustainable financing.

³ http://www3.weforum.org/docs/WEF_GRR18_Report.pdf.

Greener investments may yield considerable benefits and help to avoid additional costs arising from the remediation of environmental damage. Healthy ecosystems deliver many services such as clean air, clean water, flood prevention, crop pollination, carbon storage, improved health and well-being free of charge. In 2011, it was estimated that the costs associated with the environmental implementation gaps in relation to targets for waste and water management, air quality and biodiversity protection could be around 50 billion per year ⁴.

In this context, the transition towards a circular economy is increasingly important within our Union: it is indispensable to a sustainable, low-carbon and resource efficient economy that is competitive globally. Improving resource efficiency, waste prevention, eco-design, re-use and similar measures could earn net savings of EUR 600 billion, or 8 % of annual turnover, for businesses in the EU, while reducing total annual greenhouse gas emissions by 2-4 %. Full implementation of the EU waste legislation alone could create an additional extra 400 000 jobs and additional annual turnover of EUR 42 billion by 2020 ⁵. A shift from recycling to refurbishing light commercial vehicles, where collection rates are already high, could save material inputs by EUR 6.4 billion per year (about 15% of material budget) and EUR 140 million in energy costs ⁶. More generally, the lack of compliance with EU standards and weak implementation remain among the key factors distorting the Single Market.

In order to turn these economic projections into hard economic achievements and benefits for our citizens and businesses, it is important to continue to invest in environmental protection and to continue with structural reforms.

⁴ European Commission, DG Environment. The costs of not implementing the environmental acquis, September 2011.

⁵ Bio Intelligence Service, 2011. Study on "Implementing EU legislation for Green Growth".

⁶ Dr Janez Potočnik, <http://www.circularchange.com/circular-economy-can-bring-170-000-new-jobs-2035-2/>.

2. Greener and sustainable investments should remain among the key EU budget priorities

Greener and more sustainable investments feature constantly within the European Semester. The Semester country reports have consistently assessed the investment needs at national level. The 2019 cycle should emphasise the investment gaps in the environmental sector.

Depending on the country ⁷, significant direct investments are still required in all key environmental infrastructure areas such as waste, water, air and nature and to support economic transitions ⁸.

As regards indirect investments, they will continue to play a key role, for instance as regards air pollution, in supporting policy implementation ⁹.

The achievement of the European Union's long-term objectives for a low-carbon and circular economy requires a more integrated approach and systemic transformations at regional and local level.

⁷ The share and importance of the Cohesion Policy in direct environmental investments has been falling for EU-15 Member States over the three programming periods - but growing for the EU-13.

⁸ For instance in the water sector, thousands of agglomerations across Europe do not have adequate collection and treatment standards and access to water is still problematic in many regions. Financial needs are still very important: more than EUR 49 billion would be needed in the water sector to reach full compliance by 2023 and meet the Urban Waste Water Directive's objectives.

⁹ Air pollution has considerable macroeconomic consequences due to its significant impact on human health and the wider environment. It accounts for over 400 000 premature deaths in the EU each year due to the immediate and longer-term impact of poor air quality on health.

The EU budget, through direct and shared managed instruments, has traditionally been a key source of environmental investment in the Member States. The track record of past multiannual exercises is positive: such investments, while sometimes taking longer completion cycles, lead to very high spending rates ¹⁰ and bring palpable benefits to citizens and industries.

Sustainability remains an important principle in supporting economic transitions and, in particular, the transition towards a more circular and social economy, in all sectors and all Member States, by helping private and public beneficiaries. The needs and amounts vary across the EU from one region to another. Nevertheless, the EU budget has proved to be not only an important source of funding with which to fill in the implementation gaps, but also a catalyst for private funding. The importance of EU financing from InvestEU as seed money is likely to increase in the future. We should therefore make better use of current opportunities for both direct environmental investment and for other necessary sustainable projects, and prepare for the future.

3. Suggested Questions for the exchange of views at the Environment Council on 5 March 2019

1. *How could sustainability be more effectively taken into account in post-2020 investments, in particular those using EU and national budgets? What kind of tools should be developed at national level in order to ensure sustainable investments?*

¹⁰ The overall expenditure rate of the Cohesion Policy direct environmental investments reached 109 % at the end of 2017 as compared to the financial allocations recorded in 2016, and 103 % as compared to the initial allocations recorded in 2008. Across sectors, the highest expenditure rate was recorded in the water sector (114 % as compared to final allocations and 112 % as compared to the initial allocations), followed by the sectors of biodiversity, climate and risk prevention, air protection, and waste (102 %/96 %, 108 %/110 %, 111 %/102 %, and 100 %/86 %, respectively). However, the expenditure rate for land rehabilitation at the end of 2018 reached 88 % of the OP allocations recorded in 2016 and only 61 % of the initial allocations recorded in 2008 (this is the only sector where OP allocations did not reach 100 %).

Background information

The key challenge for the future is to ensure that investments bring social benefits to EU citizens, and do not directly or indirectly damage the environment (for example, environmentally harmful projects). This reflects the need to preserve our environment and well-being but also the need to ensure that investments are successful ¹¹.

The existence of an appropriate strategic framework identifying the measures needed to comply with EU environmental requirements is a key first step which must be carefully framed in the context of shared management policies. In that respect, the national authorities should put in place all relevant mechanisms and tools that can be used by project promoters and authorities providing funding to ensure the sustainability and climate proofing of investments. The national authorities responsible should identify the appropriate measures that can be taken at different stages of project development in order to ensure greener and more resilient investments.

2. *How can the transition towards a greener economy be supported through the appropriate environmental/administrative reforms?*

Background information

All Member States can further improve their environmental administrative capacity. Environmental authorities often lack capacity and resources. This affects the preparation/maturation of the projects and/or their efficient implementation. Poor administrative capacity results in poor capability to develop, assess and implement sustainable investments. Coordination structures across sectoral administrations and at different levels exist in most Member States but their effectiveness varies.

¹¹ 7216/18 + COR 1 - COM(2018) 97 final.

Developing tools and ensuring appropriate training of the administration as well as for different stakeholders involved in the process (project developers, environmental consultants, NGOs, etc.) in the use of these tools are key challenges for sustainable investments.

Member States can act together and improve knowledge transfer in order to find the best way to create and implement their own and common projects by greener and more sustainable investments.

The Structural Reform Programme and Support Service (SRSS) should be extensively used in order to design and carry out structural reforms and accompany, in particular, the effective implementation of the proposed enabling conditions.

The reform support could be complemented with technical assistance under the Cohesion Policy, where the environmental institutions are relevant for the implementation of the Policy.

Overall, it is clear that improved governance and coordination can only benefit environmental policy, which has proved weaker when pursued in isolation from the other sectoral or general policies (silo).
