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The role of the financial sector in achieving a better environment – EU perspectives and initiatives

Ladies and Gentlemen,

I am very pleased to be here to address representatives of the financial sector. They play an important role in moving forward and support implementation of the environmental agenda.

We all recognise that it is impossible to achieve our environmental goals through the work of the Ministries of Environment exclusively. This is why integration is on our priority list.

The way in which we can reap the maximum benefit from environmental action is to maintain an active and honest dialogue between ourselves. As an environmental policy maker my goal is to achieve the best possible protection for the environment. The best way to do this is by working with all stakeholders including the financial sector.

To that end it is imperative that both environmental policy makers as well as the financing institutions take a more proactive role. I am happy to note that some of the institutions present here today have strong credentials with environment issues. It is very important that such contacts are strengthened and indeed that we all learn from each other. It is important that we share experiences; knowledge and that we open up to the global debates.

I see great scope for the financing institutions to help in all these areas. You have the expertise we need to enhance the quality of environmental policy initiatives. Because of this we are actively working with representatives from the financial sector to help bring about the necessary changes to ensure that environmental issues are placed high on the political agenda.

And what is the Commission doing in this regard:

European Environmental Principles

Just a couple of weeks ago the Commission helped launch the “European Principles for the Environment” (EPE), which was signed by five International Financing Institutions (IFIs) – the European Bank for Reconstruction and

Development, Council of Europe Bank, European Investment Bank, Nordic Investment Bank and Nordic Environment Finance Corporation.

The launch of the EPE represents an endorsement of the EU approach to environmental matters and a public affirmation of the strong credentials of the EU in the field of environmental management. For these five European-based financial institutions which signed the Declaration, the EU approach to the environment is the logical, uncontested and mandatory reference for projects located in the EU as well as in the Acceding, Candidate, potential candidate and European Neighbourhood Countries.

The European Commission, and DG Environment in particular sees this Declaration as an opportunity to highlight and consolidate a common EU approach to environmental issues, and to ensure that the assistance to our neighbours promotes a model of development which is coherent with EU policies.

In addition, apart from highlighting its EU credentials, this initiative reinforces the trend towards a more harmonized approach to environmental issues. EU environmental standards are as strong as any that exist, and this initiative emphasises the merits of the EU approach to environment as one of the toughest international benchmarks.

As far as we see it, the launch of this Declaration is the first step to encourage other institutions to share this common approach to environmental sustainability as well as work together on specific topics in the interests of greater harmony. The Commission hopes to build on this initiative to commit the signatories to applying and further developing a common approach to environmental management, including standards, environmental assessment, transparency, accountability, consultation and participation and monitoring and also to help foster more sophisticated environmental compliance mechanisms and management systems at the Banks to ensure proper adherence to these principles.

I hope that this example will soon be followed.

The key measure of success will be the ability of the EPE to create demonstrable improvements in environmental quality in the areas and communities affected by their respective financing activities.

I am confident that the signatories of this declaration will find that applying the EU principles for the environment is not an obstacle to their activities-as often environmental rules are presented. On the contrary I believe it will help them

proceed with sound operations, with environmental terms and conditions reinforcing in the long run the economics and the viability of the supported projects.

Dialogue with IFI's

In addition to encourage implementation of a consistent approach by all IFIs, in what regards "environmental principles", DG Environment has also intensified its dialogue with the main International Financing Institutions with a view to enhance and facilitate focus on environment issues and to provide greater potential linkages between policy and investment initiatives.

A closer collaboration with the IFIs can help secure funding for promotion of environmental priorities. Specifically, experience has shown that dialogue at an early stage can lead to interlocking of efforts (e.g. the setting of a project preparation facility by the Commission leading to co-financed projects from the IFIs) and ultimately to an increase in the up-take by the countries of loans for environmental operations.

Since 2003 there has been increased co-operation between DG ENV and the EIB with respect to policy issues both at Services and the Commissioner-President level. The EIB and ENV have in particular developed good co-operation in the sector of climate change and energy. Besides the high level (Commissioner-Director general) meetings, additional bilateral meetings have taken place between the DG ENV and EIB services. But there is still considerable room for improvement of the strategic cooperation, including at the country level in view of the fact that most IFI activity is country-based.

DG ENV has also engaged in enhanced policy dialogue with the EBRD, with a view to forge greater collaboration (in the Eastern Europe and NIS regions on both the finance side (procurement) and safeguards policy (environment standards)).

For both the EIB and the EBRD, in addition to technical meetings for exchange of experiences, the Commission is often consulted on particular projects to be financed by these two IFIs.

In parallel, DG ENV is also in a dialogue with the World Bank Group (IBRD and IFC). This dialogue covers the country strategies (including programming aspects), environmental safeguards and principles, and the Horizon 2020 initiative for the Mediterranean. So far, notable progress has been made in particular regarding the Mediterranean region, where we have agreed with the IBRD a number of commitments and where we will also intensify this dialogue (on the operations) with Morocco, Egypt, Tunisia and Lebanon, which were chosen as pilot countries.

In pursuing a dialogue with the main IFIs, we aim to encourage a more strategic focus to the use of available financing, and to ensure co-ordinated action between all financial instruments by the main donors. Specifically, we also seek:

- To develop a framework for project financing, focussing on project screening and prioritisation criteria, using environmental and financial criteria;
- To provide access to a short-list of priority investment projects to ensure that project sponsors, donors and IFIs are better informed about the viability of projects, and will have a clearer idea of next steps for project development;
- To offer a platform to donors and IFIs to establish co-operation to take projects forward;
- To develop a tangible strategic framework for donors to use when actually making financing decisions.

The ultimate aim is to leverage the currently available funding for the promotion of environmental policies. If DG ENV is able to influence the spending of IFIs, this could become a powerful tool to influence the implementation of environmental policy.

The challenge of environmental financing

Respect of the environmental acquis offers a very important challenge for countries, particularly those wishing to join the EU. Membership of the European Union, requires compliance with its acquis and ultimately raising of substantial financial and human resources. This is particularly the case for EU hopefuls, which need to have in place a comprehensive and realistic investments strategy for absorption of EU funds as well as the need to continue to allocate national resources for investments and prepare a solid strategy for co-operation with International financial Institutions in the environment field.

The initial cost estimates to comply with the various environmental Directives were estimated as between 50 and 80 billion euros for the ten new Member States plus Bulgaria and Romania.

Financial assistance was mobilised to help the candidate countries to meet these costs. In addition, the countries had to increase the allocation for environment in their own spending plans.

Roughly 20% of the EU's total pre-accession assistance was dedicated to the environment in candidate countries. Since 2000 the central and eastern European acceding countries have received financial support under the pre-accession instruments ISPA, PHARE and SAPARD. These programmes all contributed to the improvement of environmental institutions and infrastructure.

ISPA has, since 1999, been the main Community financial pre-accession instrument for supporting big environmental infrastructure projects in Central and Eastern candidate countries. Half of the total ISPA budget of €1 billion per year for the 10 countries has been earmarked for environment projects, which have mostly involved large infrastructure in the water and waste sectors, amounting to about €500 million per year for all candidate countries in the Environment area.

Community technical assistance to strengthen institutions and prepare implementation of the EU acquis was provided in the pre-accession period through the PHARE programme for the countries of Central and Eastern Europe. The total PHARE budget was over €1.5 billion per year, including the national assistance programmes, cross-border programmes, and multi-country thematic programmes. Although there was no earmarking of funds for the environment, nor were projects ever specifically classified by sector, a significant number of national and Cross-Border-Cooperation projects were either specifically related to the environmental acquis or included components related to environmental integration (such as in the context of development projects).

In addition to activities under national programmes; there were Multi-Country programmes on environment run by DG Environment in 2002 (€1.5 million), 2003 (€5 million) and 2005 (€ 3 million). These programmes were designed to provide training and exchange of experience in areas such as enforcement and inspections and environmental investment planning.

The SAPARD programme provided assistance related to agriculture and rural development, at the rate of €500 million per year for the 10 central and eastern European countries. Although not specifically conceived for the environment, under this programme countries also have had the opportunity to finance small scale rural environmental infrastructure (such as small waste water treatment plants) and agri-environmental schemes.

Several countries (Estonia, Hungary, Latvia, Slovenia and Slovakia) joined the LIFE programme during the pre-accession period. As members of the programme, actors in these countries were eligible to submit applications to the LIFE-Environment and LIFE-Nature programmes in return for fixed contributions to the LIFE budget.

After accession, assistance in the environment field almost trebled. Until the end of the current budgetary period in 2006, the new Member States will receive some €8 billion, which is more than 10% of the total investment requirements.

Through these funds, the new Member States will receive financial support for the implementation of the investment heavy directives for which transition periods have been granted.

The new Member States also have the opportunity to complete gaps in institution-building in the environment field after accession, especially with twinning and exchange programmes. The so-called 'Transition Facility' (€420 million 2004-2006) provides such support to the new Member States. The countries propose to the Commission the list of priority fields and the projects that they intend to include in this facility, environment being one of the policy areas envisaged by the EU.

For the neighbouring countries, Community assistance and cooperation is presently delivered through a range of regional instruments, namely TACIS for the countries that were previously part of the USSR (€ 3.1 billion for the period 2000-2006), MEDA in the Mediterranean countries (overall envelope of € 5.35 billion for the period 2000-2006).

After 2006, the EU will need to ensure a new financial instrument for the environment of the enlarged Europe. This should be carefully aligned with emerging environmental objectives and would replace current environmental funding programmes and encompass a future LIFE Programme.

New financing instruments architecture

It is important to ensure sufficient funding at EU level after the end of the current programming period (2006) and also at national level as new Member States should then find their own financial resources in order to meet their obligations. The binding nature of the transition period targets and clear final deadlines for directives for which transition periods were awarded justify reserving adequate financial and human resources for implementation at national level. During the negotiations for transition periods concerning investment-heavy directives, the new Member States were required to consider the sources of the financing that they would use to meet their obligations under these directives. Anticipated financing includes EU programmes, loans from International Financial institutions, national budgets and private sector investment.

The total budget for the Cohesion Package will be €307.6 billion equivalent to 0.37% of the GNI of the EU27, with 51.3% going to the new Member States.

The total environmental investments required in the period 2007-13 for the member States are estimated to be around €70-90 billion. The three principal heavy investment environmental sectors are water, waste and air. Some €17

billion is needed to comply with the requirements set by the urban wastewater directive. In addition, some €4 billion is needed to comply with the requirements of the Drinking Water Directive. Regarding waste management investments, the focus should be primarily on measures related to waste prevention and recycling. Investments will be needed to establish/upgrade the appropriate schemes for collection of individual waste streams. Major investments will be required for rehabilitation of abandoned/contaminated landfills and for upgrading the existing landfills to EC standards (e.g. to provide for methane recovery).

For the neighbour countries, while budget allocations have not yet been decided, the indicative overall figures for the candidate and potential candidate countries will be approximately: € 10.2 billion for the period 2007-2013. This budget must replace all the envelopes previously allocated to the pre-accession funds, e.g., PHARE, ISPA, CARDS, SAPARD, etc.

The Pre Accession Instrument (IPA) will cover two categories of countries: a) the candidate countries (Turkey and Croatia and fYRoM) and the potential candidate countries (the other countries of the Western Balkans).

The European Neighbourhood and Partnership Instrument (ENPI) will cover third countries participating in the European Neighbourhood Policy i.e. the countries of the south and eastern Mediterranean, Ukraine, Moldova and Belarus, and the countries of the southern Caucasus, as well as the EU's strategic partnership with Russia. The ENPI will replace MEDA and Tacis and other existing instruments such as the European Initiative for Democracy and Human Rights (EIDHR).

The ENPI instrument has been allocated an overall amount of 10.9 billion euros in 2004 prices for the 2007-2013 period.

But it should also be pointed out that - as we have seen in other countries - the benefits will be much bigger than the costs, which will include the improved health of the European population

The economic benefits in terms of health care, less insurance and more productivity are also enormous. Air pollution kills too many people every year in Europe and causes the loss of 200 million working days. The resulting losses in productivity and medical expenses have an annual cost to the EU economy of over €14 billion.

Initially people focused only on the high costs to the candidates of meeting environmental norms and standards. It was sometimes presented as a brake on their economic development. But there are also benefits. As they were missing from the equation, a one sided picture was often painted.

To redress the balance the Commission financed a study that set out to assess the benefits of applying EU environmental protection in the new Member States. You can argue over the assumptions that were made and the exact numbers that came out, but one message is clear. There are significant benefits to applying EU environmental legislation. It isn't simply a cost.

The main benefit is to public health. Cleaner air to breathe, cleaner water to drink and better waste management all improve the well being of the public and reduce health budgets. The number of chronic cases of bronchitis could be reduced by between 43,000 to 180,000 across the candidate countries. Reductions in air pollution will avoid between 15,000 and 34,000 premature deaths throughout the applicant states. Even with the uncertainties these are not negligible figures.

In addition to the benefits that can be calculated, there are numerous others that cannot be accurately measured in monetary terms.

As an example, the private sector will benefit from modern technology that will increase productivity. Better quality and more efficient waste management will reduce production and maintenance costs. These gains and savings balance the picture showing that environmental protection is not simply a financial burden.

Reducing pollution usually coincides with more efficient industrial processes and a better use of resources. Clean production is lean production and increased efficiency pays off in lower energy, waste and resource costs.

Environment and Growth

We have to challenge the myth that a strong environmental policy is at odds with the objectives of jobs and growth that we all share, and we are beginning to hear more and more the argument that a high level of environmental protection is a necessary cornerstone of a sustainable economy.

Environmental problems are not set to disappear, public concern continues to grow, and resources are becoming scarcer. It is therefore clear that the demand for environmental technologies is going to increase.

The Commission Thematic Strategies also confirm that environmental protection and resource management make economic sense. The assessments, on which the strategies are based, demonstrate the costs of inaction and identify economic, social and environmental benefits.

In January 2004, the Commission launched an Environmental Technology Action Plan to overcome barriers to the development and use of environmental technologies. The Action Plan sets out 25 actions to get from research to market and to improve market conditions.

The Action Plan should be supported by considerable Community funding. In the new Framework Research Programme the Commission has proposed funding for environmental research amounting to over two billion euros. We will also offer direct financial support through the new Competitiveness and Innovation Programme where €520 million has been earmarked for eco-innovation.