Opinion of the European Economic and Social Committee on ‘Financing the Transition to a Low-Carbon Economy and the Challenges in Financing Climate Change Adaptation’
(exploratory opinion)
(2020/C 311/04)

Rapporteur: Toni VIDAN (HR/III)

Co-rapporteur: Dimitris DIMITRIADIS (EL/I)

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1. Conclusions and recommendations

1.1. The EESC strongly welcomes and supports the recent European Council conclusions and the announced European Green Deal (EGD) (1), with the joint objective of securing the transition to a low-carbon economy by ‘achieving a climate-neutral EU by 2050’.

1.2. In light of the COVID-19 crisis the Committee has already called (2) for unprecedented solidarity amongst Member States and for a comprehensive European economic recovery plan which would allow the EU Member States, its citizens, companies and workers to best face the consequences of the COVID-19 pandemic and build a more sustainable and resilient European economy. The Next Generation EU of EUR 750 billion as well as targeted reinforcements to the long-term EU budget for 2021-2027, will bring the total financial firepower of the EU budget to EUR 1.85 trillion. In addition to supporting recovery it is focused on the European Green Deal and digitalisation to boost jobs and growth, the resilience of our societies and the health of our environment.

1.3. The EESC supports the resolution by the European Parliament adopted on 17 April 2020 by an overwhelming majority to place the European Green Deal at the heart of the upcoming EU recovery and reconstruction package ‘in order to kick-start the economy, improve its resilience and create jobs while at the same time assist in the ecological transition, foster sustainable economic and social development’ (3).

1.4. The EESC supports the European Green Deal Investment Plan (EGDIP) as the first of the key financial pillars of the transition to a low-carbon economy, along with the Just Transition Mechanism (4). The EESC sees these initiatives as a first step in the right direction, and urges the EU institutions to establish transparent and participatory processes for the preparation of further steps, effectively including all relevant stakeholders and aligned with recovery and a just transition to a well-being economy (5).

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1.5. Due to the unprecedented crisis we are facing, the EESC calls for an ambitious reconstruction plan in compliance with the Paris Agreement. A crucial part of this should be a climate action budget at least equal to the previously identified investment gap of around EUR 300 billion a year, and with a strong priority to support decentralised decarbonisation projects co-designed and co-owned by citizens, SMEs, energy communities and local and regional public entities.

1.6. The EESC feels strongly that the transition and post-COVID reconstruction must be just and lead to a more just and sustainable EU or it will fail, with grave consequences for the European project as a whole. We believe that a crucial component of a just transition is the political, social and economic inclusion of citizens, workers, communities and SMEs, especially in underdeveloped, rural regions in the EU, without discriminating against Member States that are not currently members of the eurozone. A set of criteria ensuring that the transition is just is paramount, and stakeholders at all levels must be included. The EESC has already contributed to this debate (6).

1.7. The EESC underlines that a just transition and post-COVID-19 reconstruction must ensure that consumers and communities become active ‘prosumers’ (producers and consumers) for sustainable products and services in the energy and transport sectors.

1.8. The EESC calls for the urgent removal of barriers preventing the reallocation of public and private funds, primarily those of existing direct and indirect subsidies to the fossil fuel sector, as well as fiscal and taxation barriers.

1.9. The EESC supports a strong mandate for the European Commission to develop a new EU adaptation strategy, and calls for equal emphasis to be placed on financing mitigation and adaptation. The EESC considers that an inclusive policy debate on the development of innovative financial mechanisms for adaptation actions and dedicated Just Adaptation Funds should start as soon as possible.

1.10. The EESC calls for a significant increase in available funds, the launch of a European Climate Action Solidarity Corps’ targeted youth programme, and funds for cooperation between local governments and organised civil society in developing community-based and community-owned low-carbon energy and transport projects.

1.11. The EESC believes that the EGD should safeguard the security and international competitiveness of the EU and especially of SMEs, which are facing increased competition from emerging economies, and supports proposals for a carbon border adjustment mechanism.

2. Introduction and general comments

2.1. The EESC is developing this opinion in response to the request by the Republic of Croatia’s Presidency of the Council of the EU, and is pleased that the Presidency intends to stimulate an EU-level debate on improving the financial arrangements with respect to meeting increasing needs of transition to a low-carbon economy and to responding to climate change adaptation. Later in the process of developing this opinion, the world and the EU have been shaken by the COVID-19 pandemic, and the opinion tries to incorporate some initial reactions to this new reality.

2.2. We are experiencing an unfolding human catastrophe, of lives lost, widespread sickness, social hardships, jobs disappearing, on an unprecedented scale. If handled badly, we risk facing consequences as severe as those of the Great Depression of 1929. If handled well, the EU can get through this together, save lives and societal wellbeing, transform our socioeconomic models to ones focused on people and the natural world and boost global partnership for sustainable development.

2.3. The EESC strongly welcomes and supports the recent European Council conclusions and the announced European Green Deal (EGD) (\(^7\)), with the joint objective of securing the transition to a low-carbon economy by ‘achieving a climate-neutral EU by 2050’. It also supports the European Green Deal Investment Plan (EGDIP) as the first of the key financial pillars, along with the Just Transition Mechanism, which aim to support workers and citizens in the regions most impacted by the transition (\(^8\)).

2.4. Evidence is indisputable that we are facing a climate emergency, existential loss of biodiversity, socially unacceptable risks to health from chemicals and air pollution, and unfathomable levels of plastic pollution in our oceans. Scientific research (\(^9\)) suggests that the emergence of new human diseases is closely linked to those drivers of environmental crisis, which are meant to be addressed by prioritising environmental action through the EGD.

2.5. Next to existential environmental crises, we are faced with high and increasing levels of inequalities, demographic crises, political radicalism as well as decreasing levels of trust in governments, governance and policy-making. The COVID-19 crisis has underlined a number of flaws with our economic and governance systems, including the limits of the market economy, and highlighted the importance of effective state institutions and strong public healthcare systems. It has also allowed people to revisit their sense of what is important. There is an urgent need to review the impact of production and consumption levels and to look at fair wages for essential work (e.g. public services such as the health sector), tax and pay policies, and new tools like universal basic income, as called for in previous EESC opinions (\(^10\)).

2.6. The EU business community is increasingly viewing the low-carbon transition and post-COVID-19 recovery as a development opportunity and a way to bring back productive jobs to Europe. Seven ‘leading European Energy companies call the EU to increase its greenhouse gas reduction target for 2030 to at least 55 % reduction on 1990 levels to align with a cost-effective trajectory to 2050’ in their recent letter to EU Environment and Climate Ministers (\(^11\)). The Energy Transitions Commission calls on governments of the world ‘to spend economic stimulus spending wisely and invest in the economy of the future’ (\(^12\)).

3. Increasing climate ambition, new financial resources for a just transition, reconstruction and transition to a low-carbon economy and implementation of the 2030 SDGs

3.1. In order to ensure adequate mobilisation of new financial resources for urgent climate action and improve the use of current ones, an ambitious political agenda with strengthened targets for 2030 and 2050 is absolutely necessary. The EESC thus supports the call for the European Union to commit to achieving carbon neutrality by 2050, and accordingly adjust its greenhouse gas reduction target for 2030 to at least a 55 % reduction on 1990 levels.

3.2. The EESC feels strongly that the transition and post-COVID-19 reconstruction must be just and lead to a more just EU or it will fail, with grave consequences for the European project as a whole. We believe that a crucial component of a just transition is the political, social and economic inclusion of citizens, workers, communities and SMEs, especially in underdeveloped, rural regions of the EU, and without discrimination against Member States that are not currently members of the eurozone. Just distribution of financial resources from the future climate action budget is essential for achieving this inclusion, and we must pro-actively prevent trends whereby the bulk of resources are channelled towards strong stakeholders with the resources and capacity to develop bankable projects.

\(^9\) https://www.nature.com/articles/s41893-019-0293-3#ref-CR101.
\(^12\) http://www.energy-transitions.org/sites/default/files/COVID-Recovery-CoverLetter.pdf.
3.3. The EESC urges the European Commission to ensure the active involvement of all stakeholders — local communities, civil society, social partners, industry, knowledge institutes, etc. — in the future development and implementation of the EGD and post-COVID recovery and reconstruction plan.

3.4. After the first steps of the EGD and the EGDIP, and due to the unprecedented crisis we are facing, EESC welcomes a recovery fund of a sufficient magnitude, and calls for an ambitious reconstruction plan in compliance with the Paris Agreement. A crucial part of this should be a climate action budget at least equal to the previously identified investment gap of around EUR 300 billion a year, and with a strong priority to support decentralised decarbonisation projects co-owned by citizens, SMEs, energy communities and local and regional public entities. The EESC has already drawn up proposals for this financial mobilisation in its call for the Finance-Climate Pact (13), and in this opinion we will be adding some additional ones.

3.5. In parallel to this, and in order to develop an optimal mixture of mechanisms for mobilising future climate finance, the EESC considers that a sound and transparent assessment of the financial resources needed to implement the 2030 SDGs is required. An inclusive policy debate on sustainability and the just transition within a demographical, technological and fiscal/public policy framework should also be enabled, with major input from the coming EEA report (14).

3.6. The EESC has already called for The European Finance-Climate pact, which would ‘redirect the money that could bring about a new financial bubble towards the fight against climate change and the real economy. It must also receive new financing, especially for SMEs’. The various sources of proposed financing include:

— redirecting funding towards sustainable investments through ‘green earmarking’ and promoting ‘green labelled’ loans from the European Investment Bank (EIB);

— using quantitative easing by the European Central Bank (ECB) as a source of financing;

— defining criteria for sustainable investment.

For instance, the Climate Finance Pact is an opportunity to address the climate crisis, the lack of quality jobs and doubts about the European project at the same time. It includes two tools: The European Bank for Climate and Biodiversity, and the European Fund for Climate and Biodiversity. Taken together, this could become the European Climate Bank.

3.7. The EESC welcomes and supports the EIB’s announcement that it intends to support one trillion euro of investment in climate action and environmental sustainability in the period 2021 to 2030. However, according to its current rules, the EIB can have a larger annual portfolio of loans. If the EU or the ECB provide more budget guarantees for the EIB, the annual portfolio could be increased even more.

3.8. The EESC calls for the Member States and the EU institutions to reform the rules of the Stability and Growth Pact so that the Golden Rule allows room for more climate action investment at national level that would be excluded from the calculation of budget deficits as part of the EU climate action budget, with appropriate safeguards against misuse (15). Initial possibilities have already been mentioned in the European Fiscal Board’s Annual Report 2019 (16) and these should now be elaborated upon and made operational. During the suspension of the Stability and Growth Pact in light of the COVID-19 crisis, the EESC invites the EU Member States to use the available budgetary means to boost climate action investment to the maximum extent.


(14) EEA report on ‘The sustainability transition in Europe in an age of demographic and technological change’.


3.9. The EESC calls on the ECB to play an important role in financing climate action directly and indirectly. In addition to the impact of its asset purchase programme (APP) and pandemic emergency purchase programme (PEPP), the ECB, by adopting the relevant regulation and exercising its regulatory powers, and by coordination with the central banks outside the eurozone under the European System of Central Banks, can encourage the central banks to follow its lead and thereby positively influence the financing of climate action. Capital ratios could also be used more proactively by applying favourable regimes to loans and investments which are regarded as green under the EU taxonomy. The ECB should be able to provide [...] liquidity through further unconventional monetary policy measures (17) and that providing whatever amount of liquidity is required should have a positive impact on climate action.

3.10. One way to increase financing of climate action is through green bonds issued by the public and private sectors and based on a strong regulatory framework, based on the EU taxonomy for sustainable investment. Schemes to encourage this are urgently needed. The EIB can play an even larger role in two ways: by granting loans to projects contributing to climate action through outright commitments and by stepping up the issuing of green bonds. These bonds could then be bought by the European Central Bank through its APP to a far greater extent than has been the case before.

3.11. As ultimately the vast majority of investments will be undertaken by citizens and the private sector, the EESC stresses the importance of environmental fiscal measures and all aspects of carbon pricing, as a key tool for making sustainable investments profitable. We would also like to emphasise that the 'combination of carbon pricing and green bonds improves environmental effectiveness, capital accumulation and debt sustainability (…), and exhibits greater intergenerational fairness' (18).

3.12. Another potential source of financing could be securitisations backed by a collateral portfolio consisting of loan assets — the collateral pool — which could include green and possible brown assets. The securitisation will be green if the proceeds serve to finance green projects.

3.13. The EESC considers that one of the main challenges in putting the EGDIP into practice is the development of a pipeline of investment projects that will respond to the strategic objectives of the EU. The availability of such investment projects does not yet match the demand. Technical assistance and advisory support at all levels of public administration will help to identify and prepare sustainable projects and provide capacity-building to project promoters. The EU-wide classification system for sustainable investments (taxonomy) (19) should be used as a basis for identifying and developing such projects.

3.14. Financing a just transition to a low-carbon economy must ensure that the development opportunity of new technologies and new companies is actively supported in a way which enables the greatest possible ownership of new production capacity by consumers and communities, especially those now excluded from the relevant production processes, transforming them into active ‘prosumers’ (producers and consumers) of sustainable products and services in the energy and transport sectors.

3.15. As utilisation of renewable energy resources is actually ‘privatisation’ of a valuable natural resource, projects supported by public finances should recognise local community ownership of them and include appropriate participation in the benefits or ownership of the projects by local communities.

3.16. The EESC would like to stress the urgent need to provide significant financial assistance to institutions which could actively facilitate the development and bundling of small, decentralised individual projects by citizens, communities or SMEs into larger and more bankable projects. As civil society is clearly coming up with many such initiatives, the EESC is keen to contribute to the development of an institutional framework and guidelines for EU-level assistance and active cooperation on those initiatives.

4. Existing financial mechanisms, investment barriers for public and private finances and state aid

4.1. The Paris Agreement requires financial flows to be made consistent with the necessary emissions reductions and climate-resilient development. In light of this and the goals of the EGD, the EESC calls for all existing EU financial mechanisms to be in line with the Paris Agreement or climate-proofed, as well as in line with the EGD goals and the Agenda 2030.

4.2. Considering existing financial mechanisms, the EESC has already adopted (20) the following recommendations:

— increasing to 40 % the share of the European Fund for Strategic Investments dedicated to combating climate change;

— the EU must show a level of ambition consistent with the challenge of combating climate change;

— an average of 40 % of its global budget (MFF 2021-2027) must be allocated to this objective, increasing the corresponding share of the European Cohesion Fund over and above the current 20 %.

4.3. There are several major barriers to appropriate levels of public and private financing of climate action at EU and Member State level, resulting in a rather low and inadequate level of funding for both mitigation and adaptation (21). We would like to stress three of them.

4.4. First, there are still large fossil fuel subsidies, both direct and indirect ones, recently estimated for the EU by the IMF (22) at USD 289 billion in 2015. The latter exist at national and EU level, causing massive environmental, social and economic (opportunity) costs that cancel out progress made in climate action. As these also lower the carbon price, the EESC believes that they need to be phased out as a matter of urgency, and the Member States' national and climate plans must present a clear timetable for that.

4.5. Second, with the fiscal policies of the EU's Member States typically being constrained by the Stability and Growth Pact and state aid rules preventing the state from playing a more important role in transformative policies, climate action financing remains limited. Current use of the general escape clause for the former (23) and a temporary framework for state aid rules (24) are exceptions that the Committee hopes will be used towards financing climate action to the maximum extent possible.

4.6. Third, there are obstacles to private sector financing, in particular for small and medium-sized enterprises and investment for research and innovation. The EESC believes that, in parallel to the EGD, the banking union and capital markets union should be finalised, with a particular focus on universal and simple access by SMEs to more diverse and substantial funding for the transition to climate-neutral technologies.

4.7. In addition, participation in the governance of key EU programmes is often limited and so it is impossible to reap the full benefits of genuine stakeholder participation: democratic participation and oversight, as well as directing public funds towards the most socially desirable uses. Broader participation of stakeholders from governments as well as civil society organisations, social partners, the academic sector and businesses, is therefore needed.

4.8. EU carbon market prices are plummeting as a result of the economic shutdown caused by the COVID-19 crisis, underlining the need to strengthen the scheme to better resist similar shocks. Just before the crisis, the EU ETS price was EUR 25 per tonne, helping drive the coal phase-out. Due to the current price drop, the profitability of lignite plants has unfortunately already improved. The price drop also means reduced revenues to Member States from the auctioning of emission allowances. A lower carbon price means less exposure to the carbon price signal to incentivise emission reductions. This is especially important for large polluting industrial sectors (steel, chemicals, cement) and the aviation sector. The EU ETS Market Stability Reserve (MSR) has been absorbing excess allowances from the market since the beginning of 2019, which is the main reason for the EUR 25 price. It will continue to take out the surplus and cancel those permits later. However, the MSR was designed to handle past oversupply accumulated over the years. It is not fit for purpose to deal with current or future surpluses. The MSR will need to be strengthened (25) in the context of EU Climate Law implementation and the upcoming review of the EU carbon market rules.

4.9. The EESC supports a Commission proposal whereby the new EU budget that will apply from 2021-2027 should offer high cost-of-capital countries in Europe the option of developing renewable energy projects with the financial backing of an EU budget guarantee mechanism. Reducing the capital costs would lower the levelised costs of electricity for onshore wind parks in Greece (26) by 20 % in relation to a scenario without de-risking measures (from EUR 5,7 cents/kWh to EUR 4,6 cents/kWh).

4.10. The EESC believes that more comprehensible and transparent state aid rules would contribute to clarity for both state and non-state actors alike in terms of which policies and sectors should be financed, and how. Furthermore, the EESC calls for stricter evaluation of national state aid schemes when it comes to the balance between financing polluters and contributing to the transition to a low-carbon economy.

4.11. The EESC points out that, in order to exploit their full potential to shape the energy transition, the revised GBER and EEAG must (27) be drafted clearly, with examples of projects or operators (e.g. renewable energy communities) that Member States could choose to cover, and that civil society organisations active in the protection of the environment must be recognised as having the status of ‘interested parties’ under Article 1(h) of the Procedural Regulation (28), (29).

5. Challenges of financing climate change adaptation

5.1. The Paris Agreement on climate change calls for action on both the causes and consequences of climate change. The causes of climate change are to be addressed through a drastic reduction in greenhouse gas emissions (i.e. mitigation) and its consequences through an equal emphasis on investment in climate resilience (i.e. adaptation).

5.2. A recent study has indicated that the cost-benefit ratios of adaptation programmes such as early warning systems, making infrastructure resilient, improving dryland agriculture, or managing water resources, range from 5:1 to 10:1 (30). The same study suggests that adaptation could generate a triple dividend which consists of avoided losses due to climate change, economic benefits from the investment programmes and social and environmental benefits.

(29) See EESC opinion on ‘A more constructive role for civil society in implementing environmental law’ (OJ C 47, 11.2.2020, p. 50), point 2.1.13; and EESC opinion on ‘EU actions to improve environmental compliance and governance’ (OJ C 283, 10.8.2018, p. 83), points 3.5.8 and 3.5.9.
(30) Global Commission on Adaptation, World Resources Institute, September 2019.
5.3. The EESC supports a strong mandate to develop a new EU adaptation strategy, and stresses the urgent need to develop a competent and credible decision-making process at EU and Member State levels in order to translate 'equal emphasis' of financing mitigation and adaptation into optimal distribution of available and future funds between those two priorities. Equally importantly, a debate on the development of innovative mobilisation of financial resources for adaptation is needed.

5.4. The EESC believes that adaptation action could significantly contribute to ensuring that transition and post-COVID-19 reconstruction are implemented in a more just manner. Communities and regions which are more than averagely affected by adverse climate change impacts should be assisted in responding to those impacts and perceived risks. This is especially true for communities and regions which have below average present and historical GHG emissions.

5.5. In order to ensure fair access to the financial resources mobilised for adaptation action, the EESC calls for technical and organisational assistance for affected regions to be provided, and for a dedicated Just Adaptation Fund, possibly at EU, Member State and regional levels, to be initiated.

5.6. While mitigation targets are clear (e.g. keep global average temperature increases below 1.5 °C, or reduce emissions by a certain amount relative to a base year), adaptation targets are tricky to set. However, they are necessary in order to achieve an efficient adaptation process. The EESC supports the establishment of vulnerability indexes (VIs) which will guide the adaptation strategy and set adaptation targets. VIs should be developed in three dimensions: geographical or regional vulnerability; sectoral or economic vulnerability; and social vulnerability.

6. New finances for non-state actors in climate action

6.1. Civil society organisations (CSOs), national, regional and local governments do not just need access to financial instruments: they also have to be active participants in the design and implementation of projects, initiatives and activities that contribute to reducing emissions and climate-proofing communities (31).

6.2. The EESC supports the European Solidarity Corps programme which 'brings together young people to build a more inclusive society, supporting vulnerable people and responding to societal challenges' (32). In the light of the climate emergency and the clear motivation of young people around the EU, the EESC proposes a significant increase in available funds, and the launch of a European Climate Action Solidarity Corps targeted sub-programme, which would enable all interested young people and hosting organisations to assist community initiatives throughout the EU for urgent climate action.

6.3. The EESC calls for a significant increase in available EU and Member State funding, especially for cooperation between local governments and organised civil society in developing community-based and community-owned low carbon energy and transport projects. The EESC notes that climate finance may be even more challenging during the COVID-19 recovery as availability of public and private sources is likely to decrease while demands for funding continue to increase.

6.4. The EESC overall view is that the EU must start investing in what makes our socioeconomic system resilient to crisis, by laying the foundation for a green, circular economy that is anchored in nature-based solutions and geared toward public well-being. Now is the time to usher in systemic economic change and the good news is that we have our blueprint: the combination of UN Agenda 2030 (17 SDGs) and the European Commission’s European Green Deal.

(31) EESC opinion on ‘Facilitating access to climate finance for non-state actors’ (OJ C 110, 22.3.2019, p. 14) and study on the Toolbox for multi-stakeholder climate partnerships. A policy framework to stimulate bottom-up climate actions.

7. Global and geopolitical aspect

7.1. The COVID-19 crisis reminds us of electricity’s indispensable role in our lives and highlights the critical value of electricity infrastructure and know-how. The crisis provides insights into how this role is set to expand and evolve in the future. How can Clean Energy Transitions help kick-start economies? They can set an ambitious agenda for job creation and climate change goals: for example, modernising energy systems can contribute to job creation and economic growth while also protecting the climate. Governments directly or indirectly drive more than 70% of global energy investments. At this time of crisis, their actions matter more than ever. Policy settings can actively steer energy-related investments onto a more sustainable path. Stimulus programmes in energy industries should be prioritised to support existing workforces, create new jobs and drive reductions in emissions.

7.2. Global Oil Markets are facing an unprecedented situation; could there be a rush — or delay — to renewables? Generally low (negative) oil prices make green energy less competitive, but for oil exporters the bargain-basement price means there is a greater economic incentive to invest in renewables, while investors could then interpret this move as a sign that oil margins will be low, and so put more of their capital into green resources.

7.3. The EESC believes that the EGD should safeguard the international competitiveness of the EU and especially of SMEs which are facing increased competition from emerging economies, against the transition risks associated with policies geared towards the desired objective of carbon neutrality, but which may have undesirable side effects in terms of international competitiveness.

7.4. Clearly, the implementation of the EGD will jeopardise the interests of fossil fuel importers to the EU, at both company and state level. The EESC believes that the EU must urgently develop resilience to possible escalation of all non-EU, interest-based efforts to slow down the implementation of the EGD, and develop stronger mechanisms to identify and respond to existing ones.

7.5. The EESC calls for the Paris Agreement to be made an essential clause in all future EU trade agreements, and for active EU climate diplomacy that seeks to tackle climate change and its consequences globally and adapt to it, in cooperation with the EU Member States. The EU should address issues related to increasing insurance costs due to the increasing physical risks of climate change, the implementation of Article 6 of the Paris Agreement and the attainment of a world carbon price through linked carbon markets at global level.

7.6. The EESC supports the proposals for a carbon border adjustment mechanism and calls for measures eliminating barriers to energy-efficient and low GHG emission products and promoting investments in renewable energy in trade agreements.


The President
of the European Economic and Social Committee
Luca JAHIER