

Ms Ursula VON DER LEYEN
President of the European Commission
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Open Letter: financing the transition towards a green and prosperous economy - the need for a European Climate Fund

Dear President of the European Commission Ms Ursula von der Leyen, we are members of the European Parliament, members of national Parliaments, economists, businesses and civil society actors and, in the context of the current debate on the revision of the European macroeconomic framework, write this open letter to call for:

- **The financing of the transition to a green and prosperous economy to become a key priority.**
- **The tabling of a proposal for a European Climate Fund, a central fiscal capacity financed through common debt that can ensure that all European economies benefit from adequate and secure funding for the decarbonisation of their societies.**

The current debate on a new macroeconomic financial framework acknowledges the importance of the green transition for the sustainability of debt, but has so far failed to offer an answer to how countries with lower fiscal space can finance the objectives of the European Green Deal.

Securing the necessary resources to finance the green transition is key because the cost of inaction is much higher than the cost of the transformation of our economies, and because existing debt will not be sustainable without the economic resilience that only this transformation can produce.

Costs and opportunities of the climate transition

The European Environment Agency estimates that extreme climate events between 1980 and 2020 have caused €487 billion of economic damage among the 27 Member States, and could cause even greater damage in the coming years. The climate emergency calls for a radical transformation of our economies and societies, and this presents us with a challenge, but also with a unique opportunity for economic prosperity and jobs, as the IEA estimates that the green technology market will be worth around \$650 billion per year by 2030. The decarbonisation of our economies is an industrial challenge driven by public policies, and the stakes are high due to competition intrinsic in other countries' initiatives, such as China and the USA. The Green Deal Industrial Plan provides a blueprint for creating the value chains for these technologies in Europe, but private investors need long term certainty on the legislative and also on the public financing side before they commit the resources our industry needs to transform.

It is difficult to estimate the cost of this transformation, but it is undoubtedly significant and it exceeds the resources that are currently available. In the working document 'Investment needs assessment and funding availabilities to strengthen EU's Net-Zero technology manufacturing capacity', the EU estimates a need for an additional 477 billion euros per year to 2030 for a Fit for 55 policy scenario, for a total of 1241 billion a year.

The limits imposed by the revised Stability and Growth Pact, according to the Commission's legislative proposal of 26 April, would prevent countries with higher debt/GDP ratios from financing the climate transition. A failed transition would have a negative impact on the economic development of these countries and therefore on the sustainability of their debt – the exact opposite effect of what these rules intend to achieve.

Successfully decarbonising the economy and reaching the climate goals of the European Green Deal is fundamental for each country individually and the EU collectively in order to preserve the prosperity of Europe. This is why all Member States should be able to access sufficient financial resources in order to reach the European Green Deal goal of a carbon-neutral EU by 2050 at the latest.

Without this, it would not be possible for countries to undertake policies of fiscal responsibility and to reach any meaningful debt reduction targets.

A European Climate Fund

Next Generation EU showed a novel way to find the resources that Europe needs to face the most pressing crises and priorities. When it comes to the decarbonisation of our economies and the creation of the value chains of genuine green technologies, utilisation of existing funds can be a part of the answer, but investment needs are too great to be met with what money is already on the table. It is crucial that the financing of the transition doesn't come at the cost of redirecting funds meant for other important priorities, such as territorial and social cohesion.

At the same time, the quality of the spending is better guaranteed by harmonising controls and by introducing a shared system of strong conditionalities, such as alignment with NECPs.

The time to provide certainty on how the transition will be financed is now, as this will be a crucial factor in the future of our economies and therefore the prosperity of all Europe. **We therefore ask the Commission to table a proposal for a European Climate Fund, a central fiscal capacity financed through common debt devoted to the financing of the green transition in all Member States. The governance of the Fund should ensure quality of spending and steer the decarbonisation of our societies and means of production.**

Signatures:

Rasmus Andersen – MEP (Germany, Greens)

Andrea Boitani – Economist, Università Cattolica del Sacro Cuore

Miguel Costa Matos – MEP (Portugal, S&D)

David Cormand – MEP (France, Greens)

Philippe Lamberts – MEP (Belgium, Greens)

Marc-Olivier Leclercq – Carbon finance expert

Misiani Antonio – MP (Italy, Partito Democratico)

Dimitrios Papadimoulis – MEP (Greece, GUE/NGL)

Andrea Roventini – Economist, Scuola Superiore Sant'Anna

Guillaume Sacriste – Associate Professor, Université Paris 1 Panthéon-Sorbonne

Pia Saraceno - Economist

Joachim Schuster – MEP (Germany, S&D)

Irene Tinagli – MEP (Italy, S&D)

Marie Toussaint – MEP (France, Greens)

Paul van den Noord – Economist, Amsterdam School of Economics and ACES

Coordinamento FREE

Confederazione Generale Italiana del Lavoro – CGIL

Deutscher Naturschutzring – DNR

E3G

ECCO – The Italian climate change think tank

Écologie Responsable

European Environmental Bureau

European Youth Forum

Finance Watch

Forum per la Finanza Sostenibile

Foundation for European Progressive Studies

Green European Foundation

Greentervention

Italia Solare

Laudato Si

Réseau Action Climat

Spring - Italian Cluster of Circular Bioeconomy



EUROPEAN COMMISSION

Ursula von der Leyen
The President

Brussels, **05 AVR. 2024**
Ares (2023) 7240665

Dear Mr Panzeri, Dear Honourable Members, Dear Members of Parliament,

I would like to thank you and the co-signatories for your letter with concrete proposals for the transition to a greener and more prosperous economy, including the proposal to create a European Climate Fund to finance the green transition in all Member States.

Since the start of the mandate of this Commission, we have put the green transition at the heart of our policy, and we made of the European Green Deal our new growth strategy to make Europe climate neutral by 2050.

The multiannual financial framework (MFF) 2021-2027 and NextGenerationEU jointly amount to EUR 2 trillion. Our budgetary instruments support the EU economy and are instrumental to the twin green and digital transitions. In particular, 30% of the EU budget (both MFF and NextGenerationEU) is dedicated to the fight against climate change. Additional instruments outside the MFF – the Innovation Fund, the new Social Climate Fund – and outside the EU budget – the Modernisation Fund – are contributing.

In the last years, the EU has faced unprecedented challenges with Russia's war of aggression against Ukraine and the ensuing energy crisis, which called for an acceleration of the clean energy transition. To finance the energy transition, remaining RRF loans, additional grants and transfers from the Brexit Adjustment Reserve have been mobilised with the REPowerEU plan. This is allowing us to diversify our energy supply, reducing the dependency from Russia.

However, the many unexpected challenges since the adoption of the MFF in 2020 are putting significant pressure on our budget. Thus, the Commission presented a proposal on 20 June 2023 for a targeted mid-term revision of the MFF to address the most urgent needs.

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The main policy elements of the revision are providing sustainable support to Ukraine, addressing the internal and external dimensions of migration as well as global challenges and emergencies, and a Strategic Technologies for Europe Platform (STEP) to promote the EU's long-term competitiveness on critical technologies. Negotiations are ongoing with the aim of reaching a swift agreement.

As for the future of the EU budget, the Commission will present a proposal before 1 July 2025, as stipulated in article 21 of the MFF Regulation¹. Delivering a green transition that leaves no-one behind, strengthening our competitiveness and other priorities such as digitisation, will likely define the Europe of the coming decade.

The Commission will consult relevant stakeholders during the process of preparation of the future spending programmes. This will be an opportunity to hear ideas and views from our citizens, companies and researchers in key policy topics that will complement other relevant institutional discussions.

In this context, the Commission appreciates the ideas proposed.

The Commission's proposals for a reform of the EU economic governance framework contain several elements that promote investment in view of the challenges ahead, including the green transition. First, by moving to a medium-term approach for fiscal surveillance, Member States will be able to better balance the fulfilment of public investment needs with debt sustainability. Second, Member States can benefit from a more gradual fiscal adjustment path by putting forward a set of reforms and investment that comply with relevant criteria. These criteria include whether the reforms and investments respond to common EU priorities, including the European Green Deal. This will incentivise Member States to prioritise investment aimed at mitigating or adapting to climate change.

The Commission's reform proposals do not include a proposal for a central fiscal capacity in order to finance the green transition in EU Member States, as you suggest in your letter. There is currently no consensus on this issue among Member States. Furthermore, as described above, the EU has already put together sizeable funds in order to ensure a sustained and sustainable recovery from the pandemic, in particular through the Recovery and Resilience Facility. These funds will be available until 2026.

The Commission looks forward to a continued political dialogue in the future.

Yours faithfully,



Ursula von der Leyen

¹ COUNCIL REGULATION (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027.