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COVER NOTE

From: Mr Hans VIJLBRIEF, Chairman of the Economic and Financial Committee
date of receipt: 4 June 2019
To: Mr Eugen Orlando TEODOROVICI, President of the ECOFIN
Subject: Letter by the President of the EFC on the item "A Clean Planet for all:
strategic long-term vision for a climate-neutral economy"



ECONOMIC AND FINANCIAL COMMITTEE

THE CHAIRMAN

Brussels, 4 June 2019
ecfin.cef.cpe(2019) xxxxxxxxxx

A Clean Planet for all:

Strategic long-term vision for a climate-neutral economy

Dear Minister Teodorovici,

In preparation for the June ECOFIN exchange of views on the strategic long-term vision for a climate neutral economy, I would like to draw your attention to the main messages from the discussions in the preparatory committees.

We very much welcome that this important topic is also discussed by finance ministers. The Commission Communication on this topic shows that it is possible to arrive at a climate-neutral economy by 2050, i.e. to net-zero greenhouse gas emissions. It does not intend to launch new policies and remains consistent with the 2030 targets. But it sets the direction of travel of EU climate and energy policy and frames the EU's long-term contribution to achieving the Paris Agreement temperature objectives in line with UN Sustainable Development Goals.

Reaching these goals will require a transformation of the European economy and society and will require efforts from all sectors, in particular energy, buildings, transport, industry, land-use and agriculture. The transition will require scaling up of existing technologies and solutions and invention of new technologies. To achieve a net-zero greenhouse gas economy by mid-century, it will be necessary to:

- Maximise the benefits from energy efficiency, including zero emission buildings;
- Maximise the deployment of renewables and the use of electricity to fully decarbonise Europe's energy supply;
- Embrace clean, safe and connected mobility;
- Foster a competitive EU industry and the circular economy as a key enabler to reduce greenhouse gas emissions;
- Develop an adequate smart network infrastructure and inter-connections;
- Reap the full benefits of the bio-economy and create essential carbon sinks;
- Tackle remaining CO₂ emissions with carbon capture and storage.

While such a transformation is challenging, it is important to know that it can deliver a positive contribution to growth and jobs.

The success of the transition will depend on the speed and scale at which the above-mentioned actions are undertaken, the extent to which citizens become active participants in the transition and the public acceptance of certain low- and carbon-free technologies.

Public policies have a crucial role to play in ensuring an enabling framework that is conducive to stimulating the transition, in particular in the areas of investment and finance, research, innovation and the deployment of technologies. Public policy measures should foster a cost-effective transition.

The transition will require important investments in the energy system and related infrastructure over many years. Estimated suggest that the current annual investment volume of about 2% of GDP will have to increase to nearly 3% (or more than 500 bn euros) per year over the 2031-2050 period. Private business and households will have to account for the vast majority of these investments. To foster such investment, it is therefore crucial to put in place clear, long-term signals to guide investors, to focus on cost-effectiveness, to avoid stranded assets, to raise sustainable finance and to direct it to the clean and most productive innovation efforts. In this context, the financial sector will need to play a critical role in enabling the decarbonisation transition and in funding the appropriate types of investments at the scale required. Environmental taxation, carbon pricing systems and revised subsidy structures should also play an important role in steering the transition. Growth enhancing reforms such as facilitating the entry of new businesses and fostering competition in product markets will also be essential to support an efficient allocation of resources towards low-carbon high productivity activities.

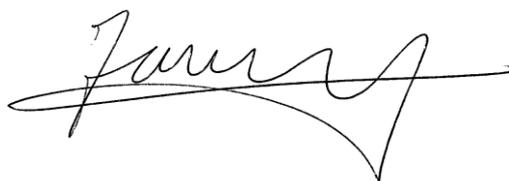
Innovation will play a key role in the successful implementation of the energy and climate transition, in particular to reduce the cost of advanced low-carbon energy carriers and technologies and increase their availability. The strategy calls in this context for a massive coordinated research and innovation effort in the EU within the next two decades. The aim is to make low- and zero-carbon solutions economically viable and bring about new solutions not yet mature or even known to the market.

It is important to acknowledge that the transition can be difficult for a number of sectors and that social and regional disparities could increase if not adequately addressed. Social implications will therefore have to be taken into account from the outset and all relevant policies (including those aimed at convergence) will have to be deployed to the fullest to ensure a just transition, i.e. one that is fair and socially acceptable for all in the spirit of inclusiveness and solidarity.

I trust these considerations will be of benefit for our discussion in ECOFIN, and to facilitate that discussion further, I would like to offer a couple of questions for debate:

- 1. Does the Commission Communication set the right direction for the EU's long-term contribution to achieving the goals of the Paris Agreement?*
- 2. What role should ECOFIN and Finance Ministries play in relation to a long-term strategy for a climate-neutral economy and how can climate and environment risks be integrated in the economic and financial decision-making process? Which priorities should be reflected in the further work?*
- 3. The investments required to achieve the transition will mostly need to come from the private sector. What kind of measures and framework conditions are needed at EU and national level to best promote private investments?*
- 4. How can investments in research and innovation in low carbon technologies and zero carbon solutions be incentivised and coordinated across the EU to accelerate the development and deployment of advanced innovations?*

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans Vijlbrief', with a long horizontal flourish extending to the right.

Hans Vijlbrief
Chairman of the EFC