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NOTE

From: General Secretariat of the Council
To: Delegations

Subject: European Semester: Preparation of the ECOFIN debate on CSR implementation related to "Greening investment"

Delegations will find attached a letter from the President of the Economical and Financial Committee addressed to the President of the ECOFIN Council regarding the Preparation of the ECOFIN debate on CSR implementation related to "Greening investment".



ECONOMIC AND FINANCIAL COMMITTEE

THE PRESIDENT

Brussels, 10 March 2020

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Mr Zdravko MARIĆ
Deputy Prime Minister and Minister of Finance
Ministry of Finance
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Preparation of the ECOFIN debate on CSR implementation related to “Greening investment”

Dear Minister Marić,

In preparation for the March ECOFIN exchange of views on policy implementation challenges related to green investment, I kindly draw your attention to some messages from our discussion in the EFC. This discussion was based on a Commission presentation and the 2020 Country Reports.

We very much welcomed the topical choice of the theme for the discussion. In the context of the Commission’s recent “Green Deal” communication, and moves to introduce a stronger climate aspect to the European Semester, it is helpful that Finance Ministers get the opportunity to discuss the challenges and barriers faced in delivering the transition to climate neutrality.

The EU’s objective of a climate neutral economy will require significant investment. Transformation of the whole economy is required. The changes needed will represent economic and other costs but also offer a significant opportunity to modernise the capital stock of the EU economy, to relaunch competitiveness in a sustainable way, and to increase convergence.

Investment has been a longstanding priority of the European Semester. The 2019 Semester included investment-related country-specific recommendations (CSRs) for all Member States. Many of these related to environmental challenges, focusing on areas related to energy, climate change, networks, and environmental protection. Some were designed to encourage the move towards an energy mix that would facilitate the transition towards the 2030 and 2050 targets. Others covered energy efficiency enhancements to reduce the high energy intensity in some countries.

The European Semester can play an important role in the transition by coordinating and steering national efforts in the direction of long-term sustainable and inclusive growth. It will be challenging to integrate the Sustainable Development Goals and the Green Deal aspects into the semester without overburdening it. The current semester should therefore be seen as a pilot phase in this endeavour. The 2020 country reports already provide a first glimpse on how this may function. They contain a dedicated section on environmental sustainability, which analyses the challenges and opportunities for each Member State. Each report also includes an assessment of progress relative to the Sustainable Development Goals of the United Nations as an annex. It is widely expected that a climate or sustainability aspect will be contained in the CSRs for each Member State.

Several messages crystallized in the EFC meeting:

- It is not only important to promote public, but also private investment. Green investments, for example in clean energy, can generate profits and may be undertaken by private investors. Financial markets should play a role in facilitating green investments.
- Care needs to be taken in evaluating and monitoring the climate impact of investment projects so that investments which are prioritised truly contribute to the climate transition (avoid 'greenwashing').
- Decommissioning 'brown' assets may be the counterpart of 'green' investment; such costs should be taken into account when assessing the fiscal implications of green investment.
- New and efficient investment is only a part of the equation. Regulatory measures can be the best approach in some cases, or may complement investment. There were calls for ensuring technology neutrality in regulation, to support climate friendly innovation.
- Taxation and carbon pricing also needs to be part of the discussion. Carbon should be priced in a way that sets the right market signals for incentivising investment and innovation, and helps the transition toward a climate neutral economy. Some members suggested evaluating which instruments, such as regulation and tax-incentives, should be added to the toolbox of possible instruments for achieving carbon neutrality.
- Well-designed and functioning fiscal policy that ensures fiscal sustainability remains essential. To take into account budget constraints the structure of public finances needs to improve and change. Green budgeting can play a useful role in this respect. Several members expressed interest in learning from the experience of those Member States that are applying green budgeting practices. The first exchanges in this area have taken place in the EFC Alternates.
- Rises in energy prices have social implications and the transition to a climate-neutral economy should account for this. Not all population groups, regions and Member States have the same capacity to respond in the short term to fighting climate change. Measures to mitigate the negative impacts on specific groups and sectors are important.
- The European Semester can successfully steer investment for this transition, yet it needs to keep its macroeconomic focus and continue to promote sustainability. Based on the insights from the 2020 country reports, members broadly agreed that so far, the Commission is successfully handling the challenge to broaden the scope of the Semester while not overburdening it. A final assessment can however only be made after having observed one or two full semester cycles.
- When assessing policy progress one should account for the medium-to-long-term nature of the required changes. The monitoring of the CSRs will need to take into account the more medium- and longer-term process of decarbonising economies as well as the implementation timeframe.

I trust this set of issues will be of benefit to the discussion in the ECOFIN.

Yours sincerely,

Odile Renaud-Basso

(signed)