



European Economic and Social Committee

NAT/735
European Finance-Climate Pact

OPINION

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European Finance-Climate Pact
(own-initiative opinion)

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1. Conclusions and recommendations

- 1.1 The EESC is firmly committed to the United Nations 2030 Agenda for Sustainable Development and the Paris Agreement. However, our current trajectory will at best only limit the increase in temperature to 3°C or more, which is well beyond what is stipulated in the Paris Agreement.
- 1.2 At the same time, Europe needs a renewed impetus and a new project, one that is based on cooperation and convergence rather than competition, and which demonstrates the tangible added value it can bring to Europeans, particularly young people. It is now imperative that we adopt a proactive European policy and provide a clear direction for the socio-economic model that we want for today but above all for future generations.
- 1.3 Europe needs to prove that it can provide a favourable environment for creating high-quality, well-paid jobs that respect the environment as well as a real economy which benefits all: European employers, workers and individuals.
- 1.4 However, vast amounts of money are fuelling new financial bubbles instead of serving the real economy, and institutions such as the IMF tell us that a new crisis could happen, one even more devastating than in 2008¹.
- 1.5 The next multiannual financial framework (2021-2027) must promote economic development² and jobs³ and enable the EU to achieve its objectives and contribute to the transition to a low-carbon economy by 2050.
- 1.6 There will be no life, no jobs and no entrepreneurship on a dead planet. Climate change is therefore an opportunity in terms of creating high-quality jobs and must be able to provide a solution beneficial to employers, workers and civil society. Delaying adaptation, or not acting at all, could substantially increase the total cost of climate change⁴.
- 1.7 The Commission, the European Court of Auditors and the World Bank refer to similar amounts: the equivalent of EUR 1 115 billion will have to be invested each year in the EU from 2021 in order to move forward and meet the EU's 2030 targets⁵. This EUR 1 115 billion includes a significant share of the current investments which should be redirected towards sustainable

1 <https://www.theguardian.com/business/2018/oct/03/world-economy-at-risk-of-another-financial-crash-says-imf>;
IMF: [Global Financial Stability Report October 2018](#)

2 EESC opinion on the [Multiannual Financial Framework](#), point 3.1.8 (adopted on 19.9.2018, not yet published in OJ).

3 EESC, [ECO Priorities for 2018 and beyond](#).

4 OECD, [The Economic Consequences of Climate Change](#), 2.9.2016.

5 European Commission, [Impact assessment accompanying the document "Proposal for a Directive of the European Parliament and of the Council amending Directive 2012/27/EU on Energy Efficiency"](#), SWD(2016) 405 final/2 of 6.12.2016, Table 22 (Scenario EUCO30 – Source: Primes model).

Court of Auditors, <https://www.euractiv.fr/section/climat/news/la-cour-des-comptes-fustige-linefficacite-de-la-politique-climat-de-lue/>.

development (green earmarking). The cost of non-action would be EUR 190 billion per year (or 2% of the EU GDP)⁶.

- 1.8 As has been advocated by many economists and key political figures from civil society⁷, we need to encourage and support all projects that can unite Europe's strengths in the interests of workers, businesses and all Europeans. This is the objective of a finance-climate pact for high-quality jobs.
- 1.9 The finance-climate pact aims to 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 small and medium-sized enterprises. The pact must provide a new roadmap for European leadership and should be accompanied by an integrated plan (in cooperation with China and India - key players in the fight against climate change).
- 1.10 The EESC believes that this roadmap should cover all aspects of a policy to tackle climate change: a fair transition (measure to mitigate the effects of the change, but also to compensate for damage and loss), as well as real policies for adapting to climate change. The circular economy model should be given priority⁸ as much as possible and its regulatory framework improved. Everything will need to be financed on the basis of adequate budgets to redirect current investments (green earmarking) and new sources of accessible funding.
- 1.11 This transition would bring the necessary transformation in the labour market and could contribute to the creation of high-quality jobs in the framework of the European Pillar of Social Rights⁹.
- 1.12 We must support, from a social perspective, the move towards a sustainable society model and establish an action plan to ensure a fair transition so that nobody is left behind.
- 1.13 This transition will require major investments in research and development (R&D) and innovation in order to encourage and support innovative projects that comply with European taxonomy.
- 1.14 This is about not repeating the mistakes of the past (fuel subsidies and overuse of fossil fuels) and putting an end to any promotion of projects that are detrimental to the climate and/or contrary to the Paris Agreement.
- 1.15 To achieve the Paris Agreement goals a significant share of the investments for combating climate change should be realised by the private sector, further to the public fundings.
- 1.16 The pact requires the establishment of a clear and predictable European policy framework, over the longer term, with a view to ensuring planning security for investments¹⁰. This framework

⁶ M. Ciscar *et al.*, [Climate Impacts in Europe – The JRC PESETA II Project](#), 2014

⁷ <https://climat-2020.eu/en/les-premiers-signataires/>

⁸ EESC opinion on *Investing in a smart, innovative and sustainable industry*, [OJ C 227, 28.6.2018, p. 70](#).

⁹ EESC opinion on the *European Pillar of Social Rights*, [OJ C 125, 21.4.2017, p. 10](#).

¹⁰ EESC opinion on a *Coalition to deliver commitments of the Paris Agreement*, [OJ C 389, 21.10.2016, p. 20](#).

must be accompanied by border adjustment mechanisms for products which are not subject to the same environmental and social standards.

1.17 According to the EESC, and as the Commission points out, a **unified EU classification system (taxonomy)** must be developed with a view to maintaining sustainable projects (and rejecting those that are not) and identifying areas in which investments can have the most impact. The European Parliament supports this approach and also proposes the introduction of a "green label". This label should be granted to investments that comply with EU taxonomy and the highest sustainability standards, with a view to ensuring the positive earmarking of investments¹¹.

1.18 The projects to be supported, which will be in line with the United Nations' Sustainable Development Goals and which require significant resources for innovation and R&D, will need to be enforced through a tool making it possible to visualise the various sources of financing (including the future multiannual financial framework) and based on different initiatives:

- redirecting funding towards sustainable investments through "green earmarking" and, in this context, promoting "green labelled" loans from the European Investment Bank (EIB);
- using quantitative easing by the European Central Bank (ECB) as a source of financing;
- increasing to 40% the share of European Fund for Strategic Investments dedicated to combating climate change;
- the EU must show a level of ambition that will match the challenge of fight against climate change; an average 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%;
- using 3% of pension and insurance funds;
- supporting businesses, particularly SMEs, in their R&D investments up to an amount of EUR 100 billion devoted to this purpose;
- respecting the financial assistance commitments made to the countries of the South which are contributing to the fight against climate change;
- introducing a clause on the "Paris Agreement" that is effectively binding in EU trade agreements.

2. Introduction

2.1 Article 3 of the Treaty on European Union states that the EU must promote sustainable, environmentally friendly growth. The need to act on climate issues has now become a top priority, including for the EESC, and is shaping the action of governments as well as economic actors, workers and individuals. Accordingly, a far-reaching economic, social and environmental transition needs to be organised; above all, it needs to be financed¹².

¹¹ Report of 4 May 2018 [2018/2007(INI)] on sustainable finance, rapporteur: Molly Scott Cato.

¹² EESC opinion on the [Action Plan on Sustainable Finance](#) (not yet published in the OJ.).

- 2.2 The debate that has just started on the EU's future multiannual financial framework for 2021-2027 must therefore include, across the board, matters linked to the issue of climate change and should centre on the priority goal of the transition to a more sustainable world.
- 2.3 This transition would bring the necessary transformation in the labour market and could contribute to the creation of high-quality jobs in the framework of the European Pillar of Social Rights.
- 2.4 Europe needs a new project to establish its added value and prove that it can provide a favourable environment for creating high-quality, well-paid jobs as well as a real and sustainable economy which benefits all.
- 2.5 Europe can become part of the solution because it can stand out from other international economic actors if it tackles all three social, environmental and economic dimensions of sustainable development.
- 2.6 Recent IMF and OECD studies criticised the way the 2008 crisis was managed in adopting economic measures that have forced individuals, businesses and governments to undertake budget cuts.
- 2.7 More investment in innovation or R&D is necessary to address new socio-economic challenges such as energy transition, the circular and collaborative economies, and automation and thus to prevent the decline of the quality of jobs.
- 2.8 These financial and social crises have been compounded by a political crisis or in some countries by major political upheaval, and an ecological crisis.
- 2.9 Tackling climate change is a necessity but also an opportunity to reform our economies, to promote a sustainable model for growth, to combat inequality more effectively and to strengthen democracy.

3. **The facts**

- 3.1 The EESC strongly supports the UN's 2030 Agenda, which lays down a set of sustainable development goals to eradicate poverty, protect the planet, safeguard human rights and guarantee prosperity for all. The adoption of this programme marks a historic shift towards a new model that tackles economic, social and environmental disparities within a universal and integrated framework.
- 3.2 By 2100 the Paris Agreement aims to limit global warming "to well below 2°C above pre-industrial levels," and, if possible, to pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels". However, according to the United Nations, our current trajectory will at best limit the increase in temperature to 3°C (or more).
- 3.3 Climate change has very high human and financial costs, due in particular to the increase in the number of natural disasters: heat waves and rising water levels have contributed to the deaths of eight million people worldwide since the beginning of the 20th century, at a cost of USD 7 000

billion dollars¹³. We are also seeing an increase in the number of climate refugees (250 million by 2050). Accordingly, the weakest are also the first victims of climate change, which increases the inequalities. According to the IMF, "rising inequality poses risks to durable economic growth¹⁴".

- 3.4 In a business-as-usual scenario, the changes in climate expected by 2080 would make households across the EU EUR 190 billion worse off each year at constant prices (purely to meet the cost of insurance to cover climate damage), if no adaptation measures are taken¹⁵.
- 3.5 While there has been progress on the issue of financing the fight against global warming and its effects, it has not been enough. Political priority must be given to sustainable finance and a sustainable economy, in particular through a clear, stable and incentive-based policy framework, which should also encourage the implementation of innovative projects with high added value and which respect the environment.
- 3.6 Even though Europe has yet to fully recover from the financial crisis of 2008, the IMF is already sounding the alarm and warning of the risk of a more serious and widespread crisis than that which took place in 2008¹⁶.
- 3.7 According to P. Larroustou and J. Jouzel, of the EUR 2 200 billion created by the European Central Bank since 2015, only 11% has been pumped into the real economy, with 89% fuelling speculation and a new financial bubble¹⁷. In addition, the OECD points out that around 800 spending and tax-relief programmes that encourage the production or use of fossil fuels are being applied in the 35 OECD countries and six major emerging G20 economies¹⁸, which profoundly contradicts the guidelines set out in the Paris Agreement.
- 3.8 This kind of financing, regardless of whether they are the result of speculation or of funding allocation that conflicts with the EU's objectives regarding combating climate change, has a high economic, social and environmental price tag for the whole of European society.
- 3.9 The European Parliament notes that the multiannual financial framework for 2014-2020 has not been able to meet existing needs. Moreover, it has not responded to a series of crises and new challenges (including agriculture, youth employment, sustainable investment and the environment). This is why this future financial framework now needs to be used to meet the major challenge of tackling climate change and through it creating high-quality jobs.

13 Study by James Daniell, Karlsruhe Institute of Technology, April 2016.

14 <https://blogs.imf.org/2017/02/22/the-imfs-work-on-inequality-bridging-research-and-reality/>

15 M. Ciscar *et al.*, *Climate Impacts in Europe – The JRC PESETA II Project*, 2014

16 <https://www.theguardian.com/business/2018/oct/03/world-economy-at-risk-of-another-financial-crash-says-imf>;
IMF: *Global Financial Stability Report October 2018*

17 *Avoiding climate and financial chaos* (P. Larroustou and J. Jouzel, ed. Odile Jacob).

18 [OECD Companion to the Inventory of Support Measures for Fossil Fuels 2015](#)

4. Opportunities

- 4.1 The leading entrepreneurs are aware of the opportunities that climate change offers. Many believe that businesses should be part of the solution and note that, increasingly, companies that have seized the opportunities arising in low-carbon sectors are finding that it is paying off.
- 4.2 For entrepreneurs, it is possible to create jobs and innovate while moving towards a prosperous but low-carbon economy¹⁹, and at the same time generating profits. This is all the more important given that "zero carbon emissions" should be achieved by the middle of the century if the objective of keeping global warming below 2°C is to be met.
- 4.3 A finance-climate pact must help change the need to respond to climate change into an opportunity to transform European industry and generate new enterprises. Substantial investments in the real economy and in research and development are therefore needed in order to create sustainable and high-quality jobs.
- 4.4 The overall employment rate has increased in the European Union, while unemployment has decreased as a result of the recent economic upswing. Unfortunately, long-term unemployment and the increasingly unstable nature of employment, particularly for women, as well as youth unemployment, are still very worrying. The transition to sustainable development should allow dynamic and innovative enterprises to seize all opportunities available to them and help as far as possible to improve the unemployment situation.
- 4.5 The European Union, together with the Member States, must therefore endeavour to develop a coordinated strategy for providing a favourable environment for creating sustainable and high-quality jobs. The Commission must explore the possibility of excluding from the calculation of debt²⁰ public investments which contribute to the creation of high-quality jobs and to a sustainable economy benefitting to all, enterprises and workers.
- 4.6 The EU encourages cooperation between Member States. It supports and evaluates their efforts - mainly through the European Semester, guidelines on employment and the monitoring of national policies (Joint Employment Report, National Reform Programmes and country-specific recommendations). However, it must also align its own policies with the aims and objectives supporting shared prosperity for European entrepreneurs, workers and individuals.
- 4.7 ADEME²¹ estimates that climate change could lead to a net increase in jobs of five to six million by 2050, while the European Commission predicts that three million jobs could be created in the renewable energy sector by 2020.

¹⁹ Paul Polman, CEO of Unilever, and Jean-Pascal Tricoire, CEO of Schneider Electric and president of the Global Compact in France, at the Business & Climate Summit: <http://www.businessclimatesummit.com/wp-content/uploads/2015/05/Business-Climate-Summit-Press-release.pdf>.

²⁰ EESC opinion on *Funding the European Pillar of Social Rights*; [J.O. C 262, 25.7.2018, p. 1](#).

²¹ French Agency for the Environment and Energy Management.

- 4.8 The BDI employers' confederation in Germany has indicated that it can achieve an 80% reduction in CO₂ emissions by 2050, provided that it has EUR 50 billion available each year during the period in question.
- 4.9 The number of jobs in the green economy is on the rise (4.2 million full-time equivalents in 2014 compared to 2.8 million in 2000). Some sectors are doing particularly well, including the renewable energy sector (1 million new jobs since 2000, or +182%) and the waste management sector (from 0.8 million jobs in 2000 to 1.1 million in 2014, or +36%).
- 4.10 However, it is crucial that SMEs, as well as cooperatives and the smallest organisations present at all local levels, can also take part in sustainable projects and that funds are allocated to them as a priority. Steps must therefore be taken to ensure that access to finance is not an obstacle²².
- 4.11 In addition, it is important to adopt a multi-level approach and to involve all relevant actors, both public and private, so as to promote and integrate the initiatives, plans and actions of networks of regions, cities and municipalities involved in the fight against climate change and the implementation of the Paris Agreement, as stated by the CoR in a recent opinion²³.
- 4.12 Lastly, the finance-climate pact, which requires full commitment and determination in both the public and private spheres, will need to take into account the support measures proposed by the Commission, such as taxonomy (classification), the obligation for institutional investors to mainstream "sustainability", information for investors, recalibration of banks' own funds, ensuring that businesses are more transparent when it comes to disclosing information, and EU labels (suggested by the European Parliament).

5. The different sources of funding and actions to be undertaken

Redirection (green earmarking) and new sources of funding

- 5.1 The European Commission and the European Court of Auditors, which refers to the same figures, agree that EUR 1 115 billion should be allocated each year to the fight against climate change and its effects.
- 5.2 Two types of projects should be financed²⁴ with the EUR 1 115 billion for the period 2021-2030:
- on the one hand, projects that generate a return on investment and which fall within the scope of the EIB and public development banks²⁵, private banks, pension and insurance funds or sovereign wealth funds;

²² EESC opinion on the *Road from Paris*, [OJ C 487, 28.12.2016, p. 24](#).

²³ CoR opinion on *Climate finance: an essential tool for the implementation of the Paris Agreement*, [OJ C 54, 13.2.2018, p. 9](#).

²⁴ According to Philippe Maystadt, former president of the EIB.

²⁵ KfW in Germany, CDC in France, CDP in Italy, ICO in Spain.

- on the other hand, projects that require public subsidies, to be financed by European contributions.

5.3 Current financing must be reallocated in whole or in part to sustainable investments in order to "green" the financial framework of the EU and channel the financial resources towards combating the effects of climate change. The funds concerned are as follows:

- **EIB loans:** private banks could have investments that comply with the EU taxonomy (classification) financed by the EIB;
- **monetary creation by the ECB:** pumping the money from quantitative easing into the real and sustainable economy: with 50% of the annual quantitative easing, hundreds of billions of euros could be made available per year;
- **40% (instead of the current share of 20%) of the European Fund for Strategic Investments** (EIB and Commission) should be devoted to dealing with global warming and its effects, including the social and education-related dimensions thereof;
- the EU must show a level of ambition that matches the challenge of the fight against climate change: an average 40% of its budget must be allocated to this climate objective, especially the **European Cohesion Fund**, which devotes only 20% of its means to this fight in the budget covering the 2014-2020 period;
- in addition to this funding, 3% of **pension and insurance fund investments** should be dedicated to the fight against global warming.

5.4 A particular effort must be made in the area of research and development and professional training; EUR 100 billion a year must be set aside for this sole purpose. The Committee will make proposals in good time to decide which instrument(s) to use in order to supplement the current and future financing required for this purpose.

Measures to be undertaken

5.5 Many financial instruments could be placed at the disposal of the fight against climate change, but funds will only be available if Europe has a coherent plan with a clear and long-term direction²⁶. This plan should take into account the following factors:

5.5.1 A clear, stable and long-term policy framework, will need to be established. Security is crucial for planning and investment; nothing is more detrimental to the necessary level of involvement than the uncertainty created by constant policy changes.

²⁶ Jeffrey Sachs, EESC hearing, 18 May 2018.

5.5.2 Since January 2018, the EIB has become the largest issuer of green bonds in the world. If we want to enable the EIB to grant loans on even better terms to developers of projects under the finance-climate pact, two measures could be adopted:

- Firstly, the Juncker Plan would need to be extended to include a greater focus on this type of project, allowing the EIB to make use of the guarantee for the European Fund for Strategic Investments.
- Secondly, the EIB could receive more funding from the ECB. The EIB already has access to the ECB's asset purchase programme, but only to a very limited extent. However, given the amounts envisaged, the EIB would quickly run into difficulties with its capital ratio. It is therefore conceivable that the EIB could become the bank for sustainable development, mainly financing the energy transition, ecological mobility and innovation, and moving away from financing traditional projects which, for the time being, still account for the majority of its loans.

5.5.3 The aim should be to identify the sectors for which these funds would be the most beneficial and have the best cost-benefit ratio for the environment, the public and the economy (energy, housing, agriculture, mobility, transport, recycling, water, etc.). Although there needs to be fair access to the network, it is important to take into account the fact that some sectors are sufficiently profitable and no longer require subsidies (such as the photovoltaic sector).

5.5.4 The EIB's work should be stepped up, not only in terms of volume, but also in terms of its capacity to take on more risk. For instance, the EIB would be more useful in the fight against climate change if it were to support emerging industries, however small, rather than allocating billions of euros to the conventional photovoltaic or wind sectors, which are already largely financed by the private sector.

5.5.5 As the Commission proposes, all financing must fit into a common EU taxonomy (classification). The EESC, as the representative of civil society, should be involved in developing this classification.

5.5.6 The circular economy model should be given priority as much as possible and its regulatory framework improved. The circular economy must serve to reduce, or ultimately even, to stop the extraction of natural resources, through the recycling of objects (only 3% of mobile phones are recycled, while other objects are not recycled at all) and precious metals. These metals, such as cobalt or lithium, which are used to manufacture the products of the future, are only available in small quantities relative to future needs, for the electrification of vehicles and storage of electricity in general, with the production of these metals being disproportionate to emerging needs.

5.5.7 Investments in the energy efficiency of buildings will also need to be encouraged. Buildings are responsible for 30% of CO₂ emissions (especially as there is a rapid return on investment). Furthermore, it will be necessary for power lines and pipelines to be fully interconnected in order to achieve an integrated European energy market, which is linked to Africa and the Middle East.

- 5.5.8 In order to ensure a fair social transition, in accordance with the Paris Agreement and as advocated by the Jacques Delors Institute²⁷, part of the funding will need to be allocated to an adjustment fund for regions and workers affected by the sectors in transition. In this respect, a substantial part of the European Cohesion Fund earmarked for the regions should be allocated to climate objectives and their positive socio-economic benefits. The Transition Adjustment Fund will also need to provide support measures for retraining workers. Likewise, it will need to anticipate changes instead of being subjected to them; some of its funds should therefore go towards innovation and R&D in priority sectors.
- 5.5.9 In each free trade agreement, social and environmental clauses should be completed by a binding commitment to the Paris Agreement. (This would apply to all potential EU trading partners, since 195 of the 197 members of the UN have signed the Agreement).
- 5.5.10 To highlight the utmost political importance of this action, the budgetary and financial means set aside in this manner should be enforced through a tool, making it possible to visualise, really and transparently, the funds that are concerned.
- 5.5.11 Furthermore, and although this does not come directly under a European finance-climate fund, the EU must respect its international political commitments (2009 UN Climate Conference), which involves mobilising USD 100 billion per year to finance the fight against climate change in Africa and the Mediterranean region by 2020.

Brussels, 17 October 2018

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²⁷ <http://institutdelors.eu/wp-content/uploads/2018/01/Pactesocialtransitionenergetique-FernandesPellerinCarlin-janvier18.pdf>