

9 September 2019

Informal ECOFIN 13-14 September

## Enhanced action on climate change – way forward

### - Presidency Issues Note for the Informal ECOFIN Lunch -

- The aim of this lunch discussion is to exchange views on how to move climate action forward in the policy areas relevant for Finance Ministers by (1) organising regular policy discussions and analysing policies and measures for addressing climate change, and (2) identifying priorities for possible workstreams contributing to a common understanding of the available tools and their impact on climate and economic outcomes.

## Current state of play in climate action

- Climate change is a global challenge that requires a coordinated global response. The economic consequences of climate change are being felt, and the cost of inaction is increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances and financial markets alike. Many countries are setting ambitious strategies and targets at national level.
- In its communication '*A Clean Planet for all: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy*', the Commission presented two scenarios leading to a climate-neutral economy by 2050. The Commission has called for a transformative agenda for the European economy and society that will require full transition for the whole economy and efforts from all sectors, including major shifts in investments.
- Member States are working to finalise their integrated national energy and climate plans for 2030 by the end of the year. These plans include information on policies and measures which Member States plan to put in place to decarbonise their economies, meet their 2030 climate and energy targets and fulfil the EU's commitments under the Paris Agreement.
- Different Council configurations have exchanged views on the 2050 climate strategy. The ECOFIN discussion in June demonstrated the importance of and urgent need for enhanced, coherent and cost-efficient actions to tackle climate change and concluded that Finance Ministers would have to play a

key role in the transition to a climate-neutral economy. It also highlighted that a well-managed transition could improve the EU's competitiveness and create new jobs, and emphasised that the transition must take into account national and regional specificities.

- In June, the European Council invited the Council and the Commission to advance work on the conditions, incentives and enabling framework for ensuring the transition in line with the Paris Agreement while preserving European competitiveness in a just and socially balanced way, taking into account Member States' national circumstances. In October, the Environment Council will continue to address key elements of the 2050 strategy. Discussions will also continue in other Council configurations. The European Council will finalise its guidance before the end of the year.
- In April, the Coalition of Finance Ministers for Climate Action, co-chaired by Finland and Chile, was launched. Members of the Coalition benefit from mutual learning, share best practices and consider coordinated actions. An action plan for the Coalition is under preparation. Overall, 38 countries are committed to working together, supported by key international institutions, and 13 EU Member States are members of the Coalition.

## Finance Ministers' role in climate action

- Governments have many relevant tools for climate-change mitigation and adaptation, and Finance Ministers play a key role in relation to many of those tools. These include various national and EU-level policy measures in the areas of carbon pricing (including taxation and subsidies), budgetary planning and public financial management, EU funding as well as climate finance. Finance Ministers are also responsible for various measures having an impact on macroeconomic conditions.
- Some important workstreams are already well advanced on the legislative track. In particular, the sustainable finance agenda will be discussed by the ECOFIN later this year.

## Carbon pricing

- Introducing a carbon price is widely considered the single most effective way for countries to reduce their greenhouse gas emissions. Besides allowing the overall emission reduction goal to be achieved in the most flexible and least costly way for society, a carbon price also stimulates clean technology and market innovation, fostering new, low-carbon drivers for economic growth, which are needed to achieve an efficient and market-based transition to a prosperous and climate-neutral economy.
- Carbon taxes and emissions trading systems (ETS) are the two main systems for setting a price on carbon. Both of them set a market price for greenhouse gas emissions. In the EU, the EU ETS covers around 45% of

greenhouse gas emissions. Outside the EU ETS, carbon taxes, which define a tax rate on greenhouse gas emissions or, more commonly, on the carbon content of fuels, can be used.

- There are also tools for pricing greenhouse gas emissions indirectly. These tools include, for example, national level taxes that discourage high emission activities indirectly (e.g. fuel taxes based on energy content, vehicle and road taxation, product taxation), the removal of fossil fuel subsidies, regulations that effectively incorporate a social cost of carbon, and purchases and investments used to compensate for a country's own emissions.
- The choice of the set of instruments depends on national and economic circumstances. Outside the ETS sectors, Member States use different ways to price greenhouse gas emissions and are focusing on different carbon-pricing instruments. For instance, some Member States are planning to broaden the scope of carbon taxation while others have recently introduced, or are currently designing, measures that curb emissions indirectly. Others aim to identify environmentally harmful subsidies with a view to phasing them out.

### Budgetary planning and public financial management

- Finance Ministers can move climate action forward by putting in place institutional arrangements promoting the mainstreaming of climate-change considerations into budgetary planning and public financial management.
- One way to help governments become more accountable for their climate commitments is green budgeting. Green budgeting means using the tools of budgetary policy-making to help achieve environmental goals. This includes (1) evaluating the environmental impacts of budgetary and fiscal policies with a view to having a holistic understanding of their impact, (2) assessing their coherence as regards the delivery of national and international commitments, and (3) contributing to an informed, transparent and evidence-based discussion on sustainable growth.
- Environmental considerations should be explored alongside other central considerations of green (or sustainable) budgeting, namely economic and social considerations. These three dimensions should be incorporated into budget decision-making in a balanced manner to ensure that the transition towards a climate-neutral economy is fair and just and does not endanger the economy's ability to grow. There are also costs associated with the transition to a green economy, which will put pressure on public finances.

### Role of the EU budget

- EU funding has an important role in climate-change mitigation and adaptation. Under the 2014-2020 multiannual financial framework, the target has been to channel 20% of the total EU budget into combating

climate change. During the ongoing MFF negotiations, the Commission has proposed increasing that target to 25%. In addition to the direct funding, the rules concerning mainstreaming of climate-change considerations are essential in guiding EU-funded investments.

## Role of the EIB and other international financial institutions

- Finance Ministers act as governors in international financial institutions, such as the European Investment Bank (EIB), and are therefore in charge of their strategies. These institutions play an important role in integrating climate risk, making critical sustainable investments, facilitating the mainstreaming of climate finance and thus promoting climate actions in their countries of operations.
- The EIB is the largest multilateral provider of climate finance worldwide and a main actor in mobilising climate finance in the EU, as part of the implementation of the EU's investment strategies. The EIB is working on a strategy for its future role in promoting investments to mitigate the effects of climate change and support the transition to a climate-neutral economy.

## Ways forward to further engage Finance Ministers in climate action

- The Finance Ministers will have an important role in contributing to climate action and the transition to climate neutrality. Organising regular policy-oriented discussions would be a way to incorporate climate action in the work of ECOFIN Ministers and step up efforts to tackle climate change.
- A working agenda for the Finance Ministers could help steer these discussions and enhance the preparation of climate-related policies by the EU Finance Ministers. It would focus on the policies and measures for addressing climate change relevant for Finance Ministries. The agenda would set out priorities for various workstreams on climate action, based on guidance from Ministers.
- The agenda would be informed by analytical work and impact assessments on climate-change mitigation and adaptation tools as well as a review of best practices in current policy responses and transition strategies in Member States. It could be extended further to reflect distributional effects and risks related to climate, economic and other outcomes. The focus would be on the analysis of the cost-effectiveness and efficiency of different policy measures and instruments as well as their interaction.
- The work would rely on support from relevant committees, the Commission and other institutions that have relevant expertise in the area. It could also benefit from the experiences of the Coalition of Finance Ministers.

## Issues for discussion

- How could EU Finance Ministers most usefully contribute to policy discussions on climate action and the transition to climate neutrality?
- What are the key policy areas within climate action that are relevant for ECOFIN Ministers? Do you agree that regular discussions on climate action and a working agenda are needed? What should be included among the key workstreams under the working plan?
- How could the EU budget funds be best used to support enhanced climate action in the Member States?