To: Economy and Finance Ministers of EU Member States
Cc: Commission President, Executive Vice-President for the European Green Deal and Commissioners for Environment, Transport, Energy, Industry; the Director General of DG Climate; the Chairs of the European Parliament Economic and Monetary Affairs Committee; Environment Committee; Industry, Research and Energy Committee; and Budgetary Control Committee

Re: Input to the Economic and Financial Affairs Council Meeting, Brussels, 9 November 2021

Brussels, 3 November 2021

Dear Minister,

On behalf of the European Environmental Bureau, I am writing to share with you our views on some of the issues on the agenda of the forthcoming Economic and Financial Affairs Council. I invite you to take our concerns into account during final official level preparations as well as at the meeting itself. We have highlighted two major topics of the 9 November Council Agenda.

1. Economic recovery in Europe: National Recovery and Resilience Plans (NRRP)

We understand that 25 of the 27 National Recovery and Resilience Plans (NRRPs) were submitted to the European Commission by mid-October, 22 of these were assessed and 19 adopted by the Council and 18 with pre-financing disbursed. This is a major European achievement of solidarity to build back better from the crisis. So far, the formal calculation of contributions suggests that around 40% of the funding has been allocated to climate change measures, 43% if wider green investments are counted - with all countries meeting the 37% target and several notably higher, with Luxembourg, Denmark, Austria and Malta above 50%. Key investment commitments include sustainable mobility (64bn EUR), renovation and energy efficiency (50bn EUR), and clean power and networks (30bn EUR). Biodiversity and climate adaptation were at 17bn EUR, and circular and water management combined at 15bnEUR. Furthermore, three additional countries' NRRPs were signed off since.

As Europe is tackling an impressive economic recovery, the focus of the recovery plans on renovation and energy efficiency is particularly welcome in the context of the current gas and electricity price hikes. The funding will help to reduce dependency on fossil fuels and risk of unaffordable energy bills. However, there have also been a range of missed opportunities, e.g. to support further investments in renewable energies, to ensure a sufficiently targeted focus on poor households for building renovation and to invest in public transport – each of which could help to address any future recurrence of the current energy price crisis.

The European Commission has stated that the 'do no significant harm' principle has been honoured in all cases. However, wide concerns have been raised by civil society about the support of an ongoing fossil fuel dependency with investments still subsidising fossil fuels in transport, such as truck modernisation in Germany or support to hybrid vehicles, while these investments should have been allocated to zero emissions transport solutions. The low level of investment in biodiversity and circular economy is also worrying given the extent of the biodiversity crisis and the opportunities for synergistic ecosystem-based approaches benefitting both climate and biodiversity as well as the need for circular economy solutions.

As the European Commission's approach uses a very rough estimate methodology for climate mainstreaming in the RRF (using the 0% / 40% / 100% allocation approach), the actual contribution may be quite different. The green recovery tracker established by the Wuppertal Institute and E3G suggests that in many countries the actual investments in climate mitigation solutions are less than the formal numbers that appear encouraging at first glance.

Throughout the process, concerns have been raised about good governance – and the European Parliament has been vocal about the importance of respecting the rule of law, good governance and commitments made in the context of the European Treaties. In addition, the governance of the process and the poor level of public consultation and engagement of civil society in the development of the plans is of concern. Some Member States used the Covid-19 crisis as an excuse to reduce civil society space or to roll back existing legislative commitments (e.g. on the use of environmental impact assessments), raising concerns about the respect for the rule of law and the adherence to key EU principles. On the back of this, civil society's attention is now also on the implementation of the NRRPs since provisions on how to ensure close monitoring and public oversight are urgently needed.

We therefore call upon the ECOFIN to:

- Fully ensure that each NRRP genuinely allocates at least 40% of the funds to mainstreaming climate actions and environmental sustainability and that the NRRPs contribute to the achievement of an overall target of 40% of the EU budget expenditures supporting climate objectives;
- Fast track the investments in building restoration, energy efficiency and renewables to help protect citizens from the severest effects of the climate crisis and to push down current gas and electricity prices that are sensitive to the marginal cost of meeting demand;
- Ensure that the implementation of the NRRPs fully upholds the 'do no significant harm' principle, is fully consistent and coherent with all EU laws and commitments to decarbonisation, zero pollution and halting biodiversity loss, is as cost-effective as possible, integrates social considerations, and ensures that no one is left behind;
- Further the broader policy reforms needed for the ecological transformation – identify and reform harmful subsidies, strengthen and roll out green public procurement, and set up green tax commissions to develop and deliver a programme of price reform to help ensure economic incentives drive innovation and transformative action;
- Be transparent and comprehensive in the monitoring of spending and in communicating the benefits of action – on saving energy, cutting emissions, supporting wellbeing of citizens in the transition;
- Lead by example by engaging openly with civil society to ensure that practical ideas and concerns are listened to and build creative partnerships to deliver on a common agenda of leaving the planet in a fair state for the next generations, applying the 'partnership principle'.

2. Energy prices, inflation and policy implications

The current energy prices crisis in the EU is a wake-up call for more climate action, not less. While financial measures to tackle energy poverty and protect vulnerable energy consumers as proposed by the European Commission are necessary, these must be accompanied by the right push and pull instruments to drive change in national energy policies and influence the choices and behaviours of economic actors in the first place (energy and energy-intensive industries) and citizens as final consumers, with the aim to fully decarbonize the EU's energy sector as soon as possible and hence reduce fossil-fuel dependency and risks of price impacts, and support both household and national budgets by reduced bills.

There is no doubt that the EU's heavily fossil-based energy mix and its dependency on oil and gas imports is the main cause of the energy price hike in a global market led by speculation and volatility.

However, despite this well-known economic and regulatory context, some are still trying to instrumentalise the price hike to argue that the European Green Deal and the Fit for 55 Package – which is not even yet agreed upon and will not be enforced for at least two years - are to blame for the current energy price hikes. This political stance should be resisted at all costs.

The energy prices spike comes at a time when Europe has agreed to strengthen its policy measures and instruments to contribute to avoid the worst impacts of climate change on our life on the planet. It also comes in the aftermath of the Covid crisis, which has shown the correlation between the degradation of our environment and the uptake and spreading of new diseases and has urged all governments to rebuild their economies in a more resilient and sustainable way. Domestic heating, private transport and energy and energy-intensive industry, like all other economic sectors, need to become climate-proof and fossil-fuel-free. Delaying the transition means contributing to making prospects worse for everyone. It will also backfire politically, undermine the EU's position at the UNFCCC COP26 in Glasgow and risk weakening the chances of global commitments to 1.5°C we need.

The EU must make the most of the funds that are there, exceptionally strengthened by the Next Generation EU recovery plan and the related NRRPs. Other new economic and financial instruments such as the Carbon Border Adjustment Mechanism which, if well designed, can support more climate ambition both in the EU and outside, the Climate Social Fund and a revised Energy Taxation Directive internalising environmental costs, can support the economic and social transition. Meaningful carbon pricing and the internalisation of the costs of pollution, which are still lacking across most of the EU, are key to enforcing the "polluter pays principle" and can help incentivise the transition. They can also raise funds for the radical transformation of the energy sector while leaving no one behind.

In parallel to these measures, the EU must stop subsidising fossil fuels in all forms — especially in EU funding (through the EU Budget and the NRRPs as well as the future Social Climate Fund) and public funding through hidden subsidies (energy taxation schemes amongst others) and the State Aid rules (CEEAG and GBER), which still support gas as a transition fuel and even coal in certain circumstances.

We therefore call upon the ECOFIN to:

- Accelerate your commitments to and spending on energy efficiency, building restoration, and changes in domestic heating towards renewable energies using NRRPs funding, MFF support and additional national funding;
- Support a transformative energy and climate agenda at EU and national level to reduce – and eventually eliminate – dependency on fossil-fuels, risks of price impacts on consumers and burdens on domestic and national budgets;
- Embrace the opportunities in the Fit for 55 package to push for a future where decarbonisation is the norm, fossil-fuel dependency is history and no citizen is left behind;
- Secure the Social Climate Fund and make this the flagship programme to decarbonise European homes by 2040 at the latest, first and foremost through structural upgrades of our buildings and heating systems;
- Implement the Social Climate Fund in a way that ensures sufficient money to quickly flow to citizens facing fuel hardships and enable them to improve the energy efficiency performance of their homes

and reduce their energy demand and hence energy bills *(given the importance of the Social Climate Fund, see Annex 1 for details of the EEB's asks);*

- Use already-existing resources, such as the Just Transition Fund and the Modernisation Fund, to fund zero-carbon and zero-pollution projects, and not to perpetuate fossil gas lock-ins;
- Support a renewable energy target of at least 50% and an energy efficiency target of 45% by 2030;
- Call for these targets to be achieved through binding targets at national level;
- Make the most of the economic and financial opportunities in the Next Generation EU recovery plan and the Fit for 55 Package (Energy Taxation Directive, CBAM, ETS) to drive the changes needed;
- Stop subsidising fossil fuels in any form and reform fiscal measures to internalise the costs of pollution, make renewable heating and cooling cheaper than fossil heating and generate funding for addressing the social impacts.

Thank you in advance for your consideration of these points which support the policy objectives of the European Green Deal, should help address many of the concerns of citizens from across Europe, and will help catalyse progress in meeting the environmental challenges facing Europe and the planet. This will respond to scientific evidence and support EU and national legitimacy in the eyes of a public which broadly calls for increased action at EU level to protect the environment.

Yours sincerely,

Jeremy Wates
Secretary General

Annex 1: Regulation establishing a Social Climate Fund

The Social Climate Fund is an essential tool to support low-income households, counterbalance impacts from increased consumer prices for home heating and car fuels and support investments for 2025-2032. It is to be part-financed through EU own resources (revenues from the ETS extension form ~25%) and complemented by Member State revenues. Each Member State is required to submit a Social Climate Plan together with updated National Energy and Climate Plans. However, given the scale of fuel poverty, the amount currently proposed (72.2 billion EUR EU contribution and 144.4 bn EUR with 50% national contribution) is far short and also at risk from the potential non-agreement on the ETS extension. Currently, the social fund adopts mainly a 'compensation based' approach rather than investing into empowering citizens to cut their electricity and heating bills. Furthermore, energy poverty is highly gendered, hitting women harder than men in many countries given the particular challenges of single parents and those above retirement age, who are on average more likely to be women.

We therefore call upon Member States to:

- Explicitly engage citizens across Europe and within Member States to explore and understand the social challenges they face in the climate and ecological transformation – from energy poverty, to access to services (e.g. mobility and heating) – and how best to support them to make the transition (e.g. to be able to invest in renovation and insulation, changing heating systems) and feed this into the political discussions on the Fit-for-55;
- Invest in clear communications and knowledge-building to avoid misinformation on price impacts of the EGD measures and hence social risks of advancing progressive policies; target fake-news that seeks to undermine the EGD;
- Assess whether the estimated financial envelope is sufficient to address widespread social impacts of general rising energy prices as well as those specifically linked to new Fit-for-55 measures;
- Improve the definition of redistribution criteria across Member States to take into account differences in those providing funds and those receiving funds to ensure fairness;
- Add other conditionalities to avoid that money under the Social Climate Fund flow is misused, ensuring that there is no funding for fossil fuels investments - e.g. no support for coal to gas boilers;
- Consider also the gender aspects of social impacts with an intersectional lens – given the higher incidence of fuel poverty among women, there should be specific targets and measures for women;
- Enlarge the definition of energy poverty and vulnerable households to capture the diversity of realities across Europe;
- Accompany financial instruments with measures to tackle the root causes of energy poverty.

European Environmental Bureau

● Rue des Deux Églises 14-16, 1000 Brussels, Belgium ● ☏ +32 228 91090 ● eeb@eeb.org ● www.eeb.org

International non-profit association ● Association internationale sans but lucratif (AISBL) ● EC register for interest representatives: ID number: 06798511314-27 ● BCE ID number: 0415.814.848 ● RPM Tribunal de l'entreprise francophone de Bruxelles