

Ms Ursula VON DER LEYEN
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Open Letter: financing the transition towards a green and prosperous economy - the need for a European Climate Fund

Dear President of the European Commission Ms Ursula von der Leyen, we are members of the European Parliament, members of national Parliaments, economists, businesses and civil society actors and, in the context of the current debate on the revision of the European macroeconomic framework, write this open letter to call for:

- **The financing of the transition to a green and prosperous economy to become a key priority.**
- **The tabling of a proposal for a European Climate Fund, a central fiscal capacity financed through common debt that can ensure that all European economies benefit from adequate and secure funding for the decarbonisation of their societies.**

The current debate on a new macroeconomic financial framework acknowledges the importance of the green transition for the sustainability of debt, but has so far failed to offer an answer to how countries with lower fiscal space can finance the objectives of the European Green Deal.

Securing the necessary resources to finance the green transition is key because the cost of inaction is much higher than the cost of the transformation of our economies, and because existing debt will not be sustainable without the economic resilience that only this transformation can produce.

Costs and opportunities of the climate transition

The European Environment Agency estimates that extreme climate events between 1980 and 2020 have caused €487 billion of economic damage among the 27 Member States, and could cause even greater damage in the coming years. The climate emergency calls for a radical transformation of our economies and societies, and this presents us with a challenge, but also with a unique opportunity for economic prosperity and jobs, as the IEA estimates that the green technology market will be worth around \$650 billion per year by 2030. The decarbonisation of our economies is an industrial challenge driven by public policies, and the stakes are high due to competition intrinsic in other countries' initiatives, such as China and the USA. The Green Deal Industrial Plan provides a blueprint for creating the value chains for these technologies in Europe, but private investors need long term certainty on the legislative and also on the public financing side before they commit the resources our industry needs to transform.

It is difficult to estimate the cost of this transformation, but it is undoubtedly significant and it exceeds the resources that are currently available. In the working document 'Investment needs assessment and funding availabilities to strengthen EU's Net-Zero technology manufacturing capacity', the EU estimates a need for an additional 477 billion euros per year to 2030 for a Fit for 55 policy scenario, for a total of 1241 billion a year.

The limits imposed by the revised Stability and Growth Pact, according to the Commission's legislative proposal of 26 April, would prevent countries with higher debt/GDP ratios from financing the climate transition. A failed transition would have a negative impact on the economic development of these countries and therefore on the sustainability of their debt – the exact opposite effect of what these rules intend to achieve.

Successfully decarbonising the economy and reaching the climate goals of the European Green Deal is fundamental for each country individually and the EU collectively in order to preserve the prosperity of Europe. This is why all Member States should be able to access sufficient financial resources in order to reach the European Green Deal goal of a carbon-neutral EU by 2050 at the latest.

Without this, it would not be possible for countries to undertake policies of fiscal responsibility and to reach any meaningful debt reduction targets.

A European Climate Fund

Next Generation EU showed a novel way to find the resources that Europe needs to face the most pressing crises and priorities. When it comes to the decarbonisation of our economies and the creation of the value chains of genuine green technologies, utilisation of existing funds can be a part of the answer, but investment needs are too great to be met with what money is already on the table. It is crucial that the financing of the transition doesn't come at the cost of redirecting funds meant for other important priorities, such as territorial and social cohesion.

At the same time, the quality of the spending is better guaranteed by harmonising controls and by introducing a shared system of strong conditionalities, such as alignment with NECPs.

The time to provide certainty on how the transition will be financed is now, as this will be a crucial factor in the future of our economies and therefore the prosperity of all Europe. **We therefore ask the Commission to table a proposal for a European Climate Fund, a central fiscal capacity financed through common debt devoted to the financing of the green transition in all Member States. The governance of the Fund should ensure quality of spending and steer the decarbonisation of our societies and means of production.**

Signatures:

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Miguel Costa Matos – MP (Portugal, Partido Socialista)

David Cormand – MEP (France, Greens)

Philippe Lamberts – MEP (Belgium, Greens)

Marc-Olivier Leclercq – Carbon finance expert

Misiani Antonio – MP (Italy, Partito Democratico)

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Coordinamento FREE

Confederazione Generale Italiana del Lavoro – CGIL

Deutscher Naturschutzring – DNR

ECCO – The Italian climate change think tank

Écologie Responsable

European Environmental Bureau

European Youth Forum

Finance Watch

Forum per la Finanza Sostenibile

Foundation for European Progressive Studies

Green European Foundation

Greentervention

Italia Solare

Laudato Si

Réseau Action Climat

Spring - Italian Cluster of Circular Bioeconomy