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Letter to EU Ministers on Economy and Finance ahead of ECOFIN council 14 May 2024

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 185 member organisations active in 38 European countries, representing over 1,700 NGOs and more than 40 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

To: EU Ministers on Economy and Finance

Dear European Ministers on Economy and Finance,

We approach you ahead of the meeting of the Economic and Financial Affairs Council on 14 May 2024 that will debate international climate finance.

The increasingly devastating impacts of the climate crisis, fuelled primarily by the continuous burning of fossil fuels, is hitting communities, cities and countries all over the world harder than scientists have predicted. Extreme rains and floods in Brazil, Kenya, Australia, and excessive heat waves in larger parts of South and Southeast Asia are but a few recent examples of the impacts of climate change.

International climate finance is essential to strengthening climate security. Runaway climate change has been identified as an important factor threatening human security by the IPCC and by NATO as a 'threat multiplier' exacerbating conflict, fragility, and geopolitical competition. While there is no doubt that the EU needs to respond to the security threats following the Russian war on Ukraine, doing so at the expense of ramping up investments to implement the Paris agreement and into international dimensions of the European Green Deal would be extremely short sighted and violate European and international law.

We need a deep transformation of the current financial system: Marginal reforms and ad-hoc measures will be insufficient to raise and deliver the trillions urgently needed in the short timeframe humanity still has to avoid the worst impact scenarios.

Following the agreements of COP28 and the conclusion of the first Global Stocktake under the Paris Agreement, including phasing-out of all fossil fuels, transitioning to renewable energies and doubling the rate of energy efficiency improvements in a just manner, as well as implementing the UAE Framework for Global Climate Resilience, the **EU must come fully prepared - with climate finance negotiators mandated by their respective finance ministries to make meaningful financial commitments - to the key international policy milestones** this year. We therefore welcome that you will consider G20 related aspects and the work programme of the coalition of finance ministers for climate action and its work plan for 2024-2025 at your ministerial meeting on 14 May. Against this background, we call on you to pursue in particular the following:

Public climate finance and the post-2025 goal

The EU must be a driving force for agreeing a robust new climate finance goal for post 2025 (New Collective Quantified Goal, NCQG) to be decided at COP29 that **centers public finance and is needs-based, fair and equitable, and reflects developed countries' particular legal obligations.** Negotiations on this will intensify from now onwards, including at the UNFCCC session in Bonn in June. These negotiations are critical for the EU to take global climate leadership while embarking on the next 5 years' cycle, decisive to meet 2030 targets.

A strong public finance contribution from the EU and other wealthy developed countries will be a critical precondition, and motivator, for other countries to contribute additional finance on a voluntary basis, as reflected in Article 9.2 of the Paris Agreement. Predictable, reliable and long-term climate finance is required to catalyse meaningful climate action. Financial contributions from the EU are critical to see the next round of NDCs that are due in early 2025 to reach the ambition levels required for the world to reach the Paris goals, including limiting warming to 1.5°C, capitalising the Loss and Damage Fund and allowing developing countries to adapt. Delaying climate finance would have devastating consequences, and could also undermine the legitimacy and relevance of the UNFCCC, the Paris Agreement, and climate multilateralism.

The NCQG must entail a well-defined goal for international climate finance in 2030 with a clear pathway for the scale-up and improved mechanisms to ensure delivery. The NCQG must include a clear process for periodic review and dynamic adjustment aligned with the Paris Agreement GST/NDC cycle in order to continuously take into account evolving needs in developing countries and ensure accountability, fairness and equity in the ratcheting up of climate finance. Critical elements will be:

- Scaled up additional public finance to meet the scale of the actual and evolving needs of developing countries, prioritising grant-based and non-debt-inducing instruments.

- Parties must agree on a just and science-based floor for the quantum with specific sub-goals for the provision of public finance for mitigation, adaptation and loss & damage.

- Countries should contribute to the NCQG in accordance with the provisions of the entire Article 9, Article 2.2 and Article 4.5 of the Paris Agreement with developed countries fulfilling their obligation to provide support and taking the lead in mobilising wider finance.

- Finance provided under the NCQG needs to be new and additional to finance provided to meet existing commitments on official development assistance (ODA) so as to avoid diverting scarce funds from pressing development and humanitarian needs.

- Parties need to address the quality of financing, including accessibility and transparency, responsiveness to marginalised communities' needs, and supporting fundamental rights including through gender-responsive, locally led, participatory and inclusive approaches.

Strong political decisions to make polluters and profiteers pay

In order to meet the **significant climate finance needs it will be critical to raise and mobilise new and additional resources.** The benefits of climate finance provision are clear (every euro invested in climate resilience now will save at least five euros in future). It is the responsibility of finance ministries to include these calculus in all long term financial planning and clarify the economic incentives for decision makers at all levels. The EU finance ministers play a critical role in creating and designing new systematic, permanent and fair international climate financing mechanisms.

We call on the **EU to implement initiatives for generating new and additional finance from equitable taxation and redistribution for climate and development purposes**, including options also considered by the International Tax Task Force and in relation to taxing the super-rich who, by their extreme consumption levels, bear special responsibility for causing the climate crisis.

Options for raising public finance are many, and include taxation of emission-heavy sectors, including but not limited to the fossil fuel and the meat industry, through fair, equitable and, in the case of cross-border measures, multilaterally determined approaches. Wealth and progressive taxation should be rapidly advanced to contribute towards the costs of climate action in developing countries.

2024/2025 must deliver breakthroughs through concrete implementation plans for select sources through designs that are based on equity and fairness, and with its use supporting measures to repair climate harm, including addressing loss and damage, funding preventive adaptation in developing countries, as well as accelerating the transition away from fossil fuels, in line with the G7 countries' agreement to phase-out and divert fossil fuel subsidies and overall fully aligning 100% of public and private financial flows with the 1.5°C target.

The new international climate finance regime is negotiated at a time of the **deepest debt crises that has faced the Global South citizens since record began**. Developing country sovereign debt and debt servicing is hindering these countries from funding climate and development efforts, and accelerates climate change inducing destructive actions, such as deforestation and other unsustainable resource extraction. Thus, climate finance should be provided primarily as grants, and through non-debt creating instruments and mechanisms so as not to worsen and exacerbate the debt burden of developing countries. Debt cancellation should be pursued in order to strengthen countries' financial capability and flexibility, and correct historical injustices.

When choosing which instruments climate finance is to be channeled through, European decision makers will need much improved information in order to make knowledge-based decisions. When it comes to crowding in private finance, achieving real adaptation outcomes and targeting finance to the most vulnerable areas and segments of societies, misunderstandings and disinformation still persist especially related to abilities of private sector instruments. Therefore evidence-based, transparent and rigorous reviews are needed about which instruments work best for achieving the objectives of the Paris agreement.

We call on the EU to support the elements presented above in order to invoke trust and advance the negotiations on a strengthened international climate finance regime.

Yours sincerely,

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