EUROPEAN ELECTIONS 2024
OUR FOUR KEY MEASURES ON FINANCE

Summary of measures

Achieving international and European climate goals–while also limiting the human, social and economic impact of climate change–requires the rapid redirection of financial flows towards sustainable activities. In the context of the 2024 European elections, Reclaim Finance calls on the EU political parties to implement four key measures to carry out this reorientation:

1. **Require financial players to invest at least 6 euros in "clean" energy for every euro spent on fossil fuels by 2030**:

   The "clean energy:fossil fuel" finance ratio for the major EU banks averages "1.6:1" today, but should reach at least "6:1" in 2030 to limit global warming to 1.5°C. European financial players need to be guided towards ecological transition through the establishment of specific and gradually increasing EU set ratio targets.

2. **Oblige financial actors to adopt and apply robust climate transition plans**:

   Transition plans can be a real tool to support the economic transition and enable companies to implement a gradual transformation. However, transition plans can become a tool for greenwashing if they are poor quality or if they are not properly implemented. It is therefore necessary to better regulate the content and implementation of these plans, in particular sectoral policies for the highest emitting activities and the methods for setting decarbonization targets.

3. **Cut financial support for developing activities that are particularly harmful to the climate and the environment**:

   The continued development of greenhouse gas emission-intensive activities jeopardizes the EU's climate and environmental commitments and increases financial risks. For the fossil fuel sector in particular, investments today enable the construction of projects that will emit considerable volumes of emissions throughout their lifetime. There is an urgent need to cut funding for new fossil fuel production

projects, and the principle of "do not significantly harm" (DNSH) should more generally become the compass for funding granted by European players.

4. **Propose preferential rates for the financing sustainable activities:**

   By granting banks lower refinancing rates to finance activities that are essential to the energy transition–and in particular to finance energy-efficient building renovations–the European Central Bank could support the EU in mobilizing the volumes of capital necessary to achieve its climate objectives. In the current context, such a "differentiated" rate mechanism would protect sustainable activities from the effects of rate hikes by the central bank.

In May 2019, MEPs declared a climate emergency[1]. This paved the way for policies to achieve carbon neutrality by 2050 and reduce European greenhouse gas emissions by at least 55% by 2030. On the same day, they called for an end to fossil fuel subsidies in 2020[2].

Four years later, the European Green Deal, proposed by the European Commission to achieve these targets, is in the final stages of being adopted. Coupled with the Repower EU package, launched following the Russian invasion of Ukraine, the Green Deal resolutely directs the European Union towards limiting climate change and respecting the targets set in Paris in 2015.

But adopting the Green Deal and RepowerEU alone will not be enough to achieve those climate targets[3]. Expenditure and additional investments are needed: and according to the European Commission, **620 billion euros should be spent each year by 2030 in addition to what is currently being spent**[4]. The European Court of Auditors estimates that **1000 billion a year** [5]. Currently, the European Commission has committed around 30% of its 2021-2027 budget (around €87 billion per year) to climate action.

Meeting these demands requires a rapid and complete reorientation of financial flows. Although public finance will be mobilized, most of the funds will come from banks, insurers and private investors. According to the International Energy Agency (IEA), **in "advanced" economies such as the European Union, 85% of investments in the energy transition should come from the private sector in 2030**[6]. The European Commission states that 17 to 20% of investment needs should come from the public sector, meaning that at least 80% should come from the private sector[7]. This would be made possible by an equally drastic reduction in the

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[1] European parliament, "*Climate and environmental emergency*", 2019
[2] European parliament, "*2019 UN Climate Change Conference (COP25)*", 2019
[3] Strategic Perspectives, "*Turning the European Green Deal into Reality*", 2023
[4] EU Commission, "*2023 Strategic Foresight Report*", 2023
[5] European Court of Auditors, "*EU auditors see 2030 climate and energy targets at risk*", June 2023
[6] IEA, "World Energy Outlook 2022", 2023
[7] European Commission, "*SWD (2023) 68 final*", March 2023

finance granted to polluting activities, and in particular by the immediate end of all support for the development of new coal, oil and gas production projects.

However, despite financial players' commitments to achieve net zero, finance continues to flow to the activities and companies that emit the most greenhouse gases, and remain insufficient for the sustainable alternatives.

In 2023, US$1,740 billion were invested globally in "clean" energy. This represents just 38% of the US$ 4,560 billion needed by 2030 to transform the energy system in order to limit global warming to 1.5°C[8]. At the same time, €1,050 billion (around US$ 1,160 billion) were invested in fossil fuels[9] enabling the development of many new oil and gas projects[10]. Oil and gas companies devoted 1% of their 2021 windfall profits to low-carbon activities and 61% to hydrocarbons[11]. The new projects financed and the resulting consumption of the exploited reserves of coal, oil and gas will release more greenhouse gas emissions than remain in the carbon budget for limiting warming to 1.5°C[12]. While the nine largest European and American oil and gas companies like to present themselves as "leading" players in the energy transition, none of them has adopted a credible transition plan. In fact, according to the current plans put forward by TotalEnergies and Shell, their hydrocarbon production in 2030 will be respectively 81 and 53% above the level set out in the IEA's 1.5°C scenario[13].

However, financial players continue to provide massive levels of support for the fossil fuel sector. Since the Paris Agreement was signed, the world's 60 largest banks have spent more than US$ 5,500 billion on fossil fuels, with the big European banks spending US$ 767 billion [14].

Unless private finance rapidly changes trajectory, it will be unable to mobilize the capital needed to achieve European climate objectives. Instead, private financial institutions will continue to exacerbate climate change despite their stated ambitions. In so doing, the finance sector will increase the risk of financial crises, the costs of which are likely to be borne by member states and their citizens[15]. Indeed, the fossil fuels supported by private finance represent a huge reservoir of assets that could–and should–depreciate during the transition[16]. Beyond the fossil fuel sector, many sectors and activities must also decarbonize rapidly and could be deeply affected (transport, steel production, cement, etc.).

[8] IEA, "*World Energy Investment 2023*", 2023

[9] *Ibid.*

[10] Urgewald, "*NGOs Release the 2022 Global Oil & Gas Exit List: An Industry Willing to Sacrifice a Livable Planet*", 2022

[11] IEA, "*World Energy Investment 2023*", 2023

[12] IPCC, "*Climate Change 2022: Mitigation of Climate Change - Technical Summary*" 2022

[13] Reclaim Finance, "*Evaluation of the climate strategies of oil and gas companies*",(visited on June 15, 2023)

[14] Rainforest Action Network et al, *Banking on Climate Chaos 2023,* 2023

[15] Reclaim Finance *et al.*, "*Fossil assets, the new subprimes? When financing the climate crisis can lead to the financial crisis*", 2021

[16] Beyene *et al.*, "*Financial institutions' exposures to fossil fuel assets*", EGOV, 2022

A gradual and orderly transition to limit warming to 1.5°C is however still possible and would be the best scenario for everyone[17]. If we remain on the current warming trajectory (2.7°C), one in three people globally could find themselves in an area that is uninhabitable or scarcely habitable by the end of the century[18] as a result of climate change[19]. In addition to being a human catastrophe, climate change also weighs heavily on the European economy. **Over the last ten years, the EU has spent €145 billion responding to the impacts of climate change. In 2021, this is equivalent to €126 per European citizen**[20]. These costs will increase and become more widespread over the medium and long term in the event of uncontrolled climate change, far exceeding the cost of an orderly transition[21]. An orderly transition would also protect citizens against rising energy prices[22] and help control inflation[23].

In summary, redirecting financial flows is essential for a European ecological and energy transition that avoids the worst impacts of global warming, while bringing about the greatest human, social and economic benefits. Without such a change in direction, the climate advances recorded during the 2019-2024 legislature will struggle to deliver a real transformation of the European economy.

Reclaim Finance therefore proposes that political parties place the redirection of financial flows at the core of their programs for the 2024 European elections by integrating four key measures.

1. Require financial players to invest at least 6 euros in "clean" energy for every euro spent on fossil fuels by 2030

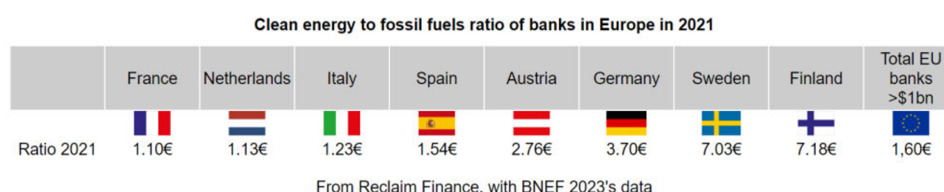
The 'clean energy:fossil fuel' finance ratio for the major EU banks today averages '1.6:1', but should reach at least '6:1' in 2030 to limit global warming to 1.5°C. European financial players need to be guided towards ecological transition through the establishment of specific and gradually increasing EU set ratio targets

According to International Energy Agency (IEA) data, investments in energy must double globally by 2030, and investments in "clean" energy supplies[24] must triple[25]. This requires a rapid redirection of financing from fossil fuels to renewables, as well as an end to investments in developing fossil fuels. Concretely, by **2030, 6 euros should be devoted to the production and distribution of clean energy for every euro spent on fossil fuels**. This ratio increases to

[17] Laura Parisi *et al.*, "From "orderly transition" to "hot house world" – how climate scenarios can facilitate action", *ECB*, 2022
[18] Lenton *et al.*, "Quantifying the human cost of global warming", Nature Sustainability, 2023
[19] France Strategy, "Cost of inaction in the face of climate change in France: what do we know?", March 2023.
[20] Eurostat, "Losses from climate change: €145 billion in a decade", 2022
[21] European Central Bank,"Shining a light on climate risks: the ECB's economy-wide climate stress test", 2021 / World Economic Forum, "Climate change has cost the EU €145 billion in a decade", 2022
[22] IEA, "World Energy Outlook 2022", 2022
[23] Reclaim Finance, "Managing Inflation by Supercharging a Clean Energy Transition", 2022
[24] Here the term "clean energies" is not limited to renewable energies and includes in particular nuclear energy or the capture of CO_2. Definition taken from the International Energy Agency, World Energy Outlook", 2022, page 488.
[25] Reclaim Finance, "WEO 2022 – From the fossil fuel age to the clean energy era", 2023

9:1 if investments in energy efficiency are taken into account (*i.e.* the reduction of final energy demand, particularly through energy efficiency improvements in buildings, improved transport infrastructure, etc.), and through the transformation of energy end uses (in particular electrification).

There is still a long way to go to meet this requirement: **for each euro spent on fossil fuels, the major banks in the EU devote an average of €1.60 to "clean" energy[26].** While French banks are among the worst performers with an average of €1.10, other European banks, such as the Swedish and Finnish banks, are showing the way with more than €7 spent on "clean" energy for each euro spent on fossil fuels[27].



Clean energy to fossil fuels ratio of banks in Europe in 2021

	France	Netherlands	Italy	Spain	Austria	Germany	Sweden	Finland	Total EU banks >$1bn
Ratio 2021	1.10€	1.13€	1.23€	1.54€	2.76€	3.70€	7.03€	7.18€	1,60€

From Reclaim Finance, with BNEF 2023's data

To ensure that European finance is directed towards the energy transition, **objectives for a gradual increase in the "clean" energy to fossil fuel financing ratio must be enshrined in law**.

2. Oblige financial actors to adopt and apply robust climate transition plans

Transition plans can be a real tool to support the economic transition and enable companies to implement a gradual transformation. However, transition plans can become a tool for greenwashing if they are poor quality or if they are not properly implemented. It is therefore necessary to better regulate the content and implementation of these plans, in particular sectoral policies for the highest emitting activities and the methods for setting decarbonization targets.

Faced with the climate emergency, financial and economic stakeholders must take a longer term view, looking beyond the usual horizons of 1, 3 or 5 years. Adopting a transition plan, containing both specific and detailed objectives and a concrete strategy to achieve them, is an essential step in making this change.

A number of European texts currently provide for the inclusion of transition plans for financial players, but inclusion remains partial and many of these plans contain major flaws:

Text	Inclusion of transition plans	Boundaries
CSRD	Yes	- Reporting obligation only; - Alignment with the 1.5°C objective not mandatory;

[26] BNEF, "Energy Supply Investment and Bank Financing Activity", 2023
[27] *Ibid.*

Text	Inclusion of transition plans	Boundaries
		- Application of plans not mandatory; - Insufficiently determined reference 1.5°C trajectories.
CSDDD	Yes	- The plan must be "put into effect", but its robustness would not be verified, absence of approved standard; - Possibility for national supervisors to monitor the design of the plan. The monitoring of the implementation is unclear. - No forseen sanctions.
CRR/CRD	Yes	- Logic of financial materiality only; - Reference to the CSRD.
Solvency II	Yes	- Logic of financial materiality only.

Despite the real progress resulting from the mobilization of MEPs on these texts, two essential issues must still be guaranteed:

	Challenges	Solutions
1	Transition plans must align with a trajectory of 1.5°C "with little or no overshoot and based on a limited volume of negative emissions".	Translate the 1.5°C ambition included in the CSRD into key criteria which ensure the transformation of all financial players' activities, by adopting the criteria listed by Reclaim Finance in its recommendations to investors, banks and insurers[28].
2	The implementation of transition plans must be monitored, with potential sanctions in the event of failure.	Make the implementation of transition plans binding, and ensure this is monitored, for example by setting up specific audit procedures, as well as sufficiently dissuasive sanctions.

3. Cut financial support for developing activities that are particularly harmful to the climate and the environment

The continued development of activities with high greenhouse gas emissions jeopardizes the EU's climate and environmental commitments and increases financial risks. For the fossil fuel sector in particular, investments today enable the construction of projects that will emit considerable volumes of emissions throughout their lifetime.

[28] Reclaim Finance, "*General Recommendations for Banks*", 2023 / Reclaim Finance, "*General Recommendations for Asset Managers*", 2023 / Reclaim Finance, "*General Recommendations for Insurers & Reinsurers*", 2023

> ***Given the urgent need to reduce finance for new fossil fuel production, the principle of "do not significantly harm" (DNSH) should more generally become the compass for funding granted by European players.***

Consuming existing fossil fuel reserves will deplete the remaining carbon budget if we are to limit global warming to 1.5°C[29]. In fact, nearly 40% of the "developed reserves" of coal, oil and gas cannot be used in order to achieve this objective[30].

In this context, an immediate end to the development of fossil fuels is imperative. As the work of the United Nations "High Level Experts Group" (UN HLEG)[31], "Race To Zero"[32] and the IEA[33] indicate, financial services should no longer be granted to new coal, oil or gas production projects, or to the companies that develop them.

Currently, only a few dozen financial players, primarily in Europe, have ended support for the development of coal[34]. In France, a dozen financial players have made ending oil and gas expansion central to their asset allocation strategy[35]. Of the 161 members of the "Glasgow Financial Alliance For Net-Zero" (GFANZ)–an alliance launched at COP 26 which brings together financial initiatives aimed at carbon neutrality–analyzed by Reclaim Finance, 9 no longer support coal and 8 have taken measures–mainly partial–to reduce support for the development of hydrocarbons[36].

Beyond fossil fuels, many other activities must be transformed in order to deliver on climate objectives and the European ecological transition. The EU has developed the notion of "do no significant harm" (DNSH), which aims to ensure that activities do not harm various sustainability objectives (including the fight against global warming). This notion was initially mobilized in the European taxonomy, and then also to condition the use of funds from the Recovery and Resilience Facility (RRF)[37]. It has the advantage of leaving room for Member States and European institutions to gradually tighten their criteria.

In order for the European financial sector to no longer participate in the development of activities that are incompatible with the Union's climate and sustainability objectives:

1. Financial services for coal, oil and gas production projects, coal-fired electricity production projects, and the companies that develop them must be prohibited;
2. The principle of DNSH must become a central criterion when granting financial services and implementing financial transition plans:

[29] IPCC, "*Climate Change 2022: Mitigation of Climate Change - Technical Summary*", 2022
[30] Trout *et al.*, "*Existing fossil fuel extraction would warm the world beyond 1.5 °C*", *Environmental Research Letters,* 2022
[31] UN HLEG, "*Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions*", 2022
[32] UN Race To Zero, "*EPRG Interpretation Guidance*", 2022
[33] IEA, "*World Energy Outlook 2022*", 2022 / IEA, "*World Energy Outlook 2021*", 2021
[34] Reclaim Finance, *Coal Policy Tool*, (accessed June 15, 2023)
[35] Reclaim Finance, *Oil and Gas Policy Tracker*, (accessed June 15, 2023)
[36] Reclaim Finance *et al.*, "*Throwing Fuel On the Fire: GFANZ financing of fossil fuel expansion*", 2023
[37] EUR Lex, "*Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation*", 2021

a. By determining a list of activities that are still considered to be "*significantly harmful*" and which should be excluded from financial services[38];
b. By requesting that financial players systematically implement a filtering procedure for financial services according to the DNSH principle.

4. Offer preferential rates for the financing of sustainable activities

By granting banks lower refinancing rates to finance activities that are essential to the energy transition–and in particular to finance energy efficient building renovations–the ECB could support the EU in mobilizing the volumes of capital necessary to achieve its climate objectives. In the current context, this "differentiated" rate mechanism would protect sustainable activities from the effects of rate hikes decided by the central bank.

The ECB traditionally applies the same rates to all the banks it refinances. This policy of uniform rates means that the banks benefit from the same financing conditions, whether they finance the most polluting activities or the most sustainable. Depending on whether the fixed rates are low or high, financing is facilitated or made more difficult.

However, sustainable investments are generally more capital-intensive than polluting investments. The cost of capital represented more than half the cost (LCOE) of European solar power plants in 2021, for example, according to the IEA[39]. With the rise in key interest rates initiated last summer, sustainable investments are becoming more and more expensive, encouraging companies to postpone investments[40].

In a nutshell, the sustainable investments that are essential for the transition are more sensitive to the ECB's rate hikes. By adopting a policy of "differentiated rates", offering lower rates to banks for the financing of sustainable activities–especially for energy efficient building renovation and for deploying renewables–would circumvent this obstacle and guarantee a reliable source of financing, incentivising investment[41].

Such a policy is consistent with the ECB's price stability mandate[42], while also satisfying its mandate to contribute to the objectives of the European Union[43]. Particularly as our dependence on fossil fuels makes us particularly vulnerable to energy price shocks and contributes to inflation and price volatility[44]. At the same time, this same dependence fuels climate change, which brings further instability and inflation–for example by multiplying extreme climatic events or by reducing agricultural yields[45]. On the contrary, an orderly

[38] WWF, "*Central Banking and Financial Supervision: Transitioning to a Net Zero and Nature Positive economy*", 2022
[39] IEA, "*Cost of Capital Observatory*", 2023
[40] Bianchi *et al.*, "*Impact of rising interest rates on sustainable projects*", *Berenschot,* 2023
[41] Sustainable Finance Lab, "*Options for the ECB to neutralize the negative effects of its monetary policy for the European energy transition*", 2023
[42] *Ibid.*
[43] Adua Dalla Cost, "*EU parliament tackles ECB's 'long-neglected' secondary mandate*", *Green Central Banking,* 2023
[44] Reclaim Finance, "*Managing Inflation by Supercharging a Clean Energy Transition*", 2022
[45] *Idem*

transition, via the rapid deployment of renewables and sustainable activities, limits the instability of prices and costs[46].

We therefore propose that the ECB set up preferential rates for the ecological transition[47], starting by granting loans at reduced rates for building renovation. Such a mechanism had been used by the ECB to offer banks reduced rates when they reached a certain volume of loans during the COVID-19 crisis. The climate emergency must be seen as requiring the same exceptional measures as the pandemic.

Although the European Parliament cannot force the ECB to implement these measures, it has a real influence on its policies[48] and can give democratic legitimacy to introducing monetary policy that supports the transition.

[46] *Idem*
[47] Reclaim Finance, "*Managing Inflation by Supercharging a Clean Energy Transition*", September 2022
[48] Adua Dalla Cost, "*EU parliament tackles ECB's 'long-neglected' secondary mandate*", Green Central Banking, 2023