

Brussels, 23 September 2022
(OR. en)

12478/22

LIMITE

**ECOFIN 878
ENV 885
CLIMA 449
FIN 926**

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	Draft Council conclusions on climate finance in view of the UNFCCC 27th Conference of the Parties (COP 27) in Sharm El-Sheikh on 6-18 November 2022

1. Council conclusions on climate finance constitute part of the EU's mandate at the 27th Conference of the Parties (COP27) to United Nations Framework Convention on Climate Change (UNFCCC), which takes on 6-18 November 2022 in Sharm El-Sheikh.
2. The draft conclusions were prepared by the Economic Policy Committee's (EPC) Energy and Climate Change Working Group (ECCWG) on 7 September 2022, finalised by the EPC on 15 September 2022, and endorsed by the Economic and Financial Committee (EFC) on 22 September 2022.
3. To be noted, paragraph 16 of the draft conclusions invites the Commission to provide an overview of international climate finance flows from the EU, its Member States, and the EIB in 2021. Once the final figure of EU's contribution is made available, the Council will be invited to approve it separately, in the form of a new paragraph 16 to the conclusions, in time before the start of COP27.
4. The preparatory work can therefore at this stage be considered complete, and the draft conclusions, set out in Annex to the present note, are deemed ready for approval by the Permanent Representatives Committee and the Council.

5. In view of the above, the Permanent Representatives Committee is invited:

- to agree on the text of the draft Council conclusions on climate finance in view of the UNFCCC COP27 as set out in Annex to the present note;
- to suggest that the Council (ECOFIN) approve these conclusions at its meeting on 4 October 2022.

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COUNCIL CONCLUSIONS

ON CLIMATE FINANCE

THE COUNCIL OF THE EUROPEAN UNION,

1. REITERATES the strong commitment of the European Union and its Member States to lead by example in ambitiously contributing to the implementation of all of the goals of the Paris Agreement and implementing the Glasgow Climate Pact. UNDERSCORES that the EU's European Green Deal constitutes a clear and comprehensive framework to contribute to these objectives, in line with the Paris Agreement and limiting the temperature increase to 1.5°C, underpinned by a wide set of policies to address climate change and environmental degradation, a dedicated Sustainable Europe Investment Plan, and financial resources. These include the EU's 2021-2027 Multiannual Financial Framework, including external policy instruments, and the temporary recovery instrument, NextGenerationEU (NGEU), which have to allocate at least 30% of the EU budget and NGEU expenditure to support climate objectives, all paving the way towards the objectives enshrined in the European Climate Law and the Fit-for-55 package, to reach climate neutrality in the Union by 2050 at the latest, and reduce net greenhouse gas emissions, by at least 55% by 2030, from 1990 levels.
2. RECALLS that following the military aggression of Russia against Ukraine, the Commission, upon request of the European Council of 24 and 25 March 2022, presented a REPowerEU plan to respond to the need to rapidly reduce the European Union's dependence on Russian fossil fuels, to accelerate the green energy transition in the EU, and to support EU's efforts in enhancing its climate ambitions.

3. RECALLS the urgency expressed in the findings of the 2022 reports of the Intergovernmental Panel on Climate Change (IPCC). STRESSES the need to raise ambition and accelerate action in line with the Paris Agreement and its long-term goals and in this context, RECALLS that Article 2 of the Paris Agreement seeks to strengthen the global response to the threat of climate change, including by making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. STRESSES that making finance flows consistent with this pathway requires a global effort. UNDERSCORES the urgency of stepping up efforts in this regard and the need for all governments to set regulatory and policy frameworks and provide appropriate incentives to attract the public and private investments needed to counter the challenges related to climate change that all countries face. NOTES that in recent years, a growing number of international initiatives have been put in place to mobilise the financial and private sectors to address the climate challenge. ENCOURAGES all Parties of the Paris Agreement to enhance transparent and robust reporting on private finance mobilised for climate action. CALLS UPON private actors to align their financial flows with the goals of the Paris Agreement. NOTES with concern the scale of private finance currently still supporting non-Paris aligned activities especially in the fossil fuel sector, and the harmful incentives still in place. RECALLS the decision agreed in Glasgow to accelerate efforts towards the phase down of unabated coal power and phase out of inefficient fossil fuel subsidies.
4. ACKNOWLEDGES the urgency of creating a dedicated space to discuss Article 2.1(c) of the Paris Agreement at COP 27 in Sharm-el-Sheikh to enable Parties, the private sector and other stakeholders to discuss their understanding of the goal and how to achieve it, in order to enable countries to realise their climate mitigation and adaptation goals and other Sustainable Development Goals.

5. HIGHLIGHTS the importance of, and progress on, EU initiatives on Sustainable Finance and on climate mainstreaming in the EU budget. WELCOMES the relevant proposals put forward in the European Commission's Strategy for Financing the Transition to a Sustainable Economy, which aim at making finance flows consistent with the goals of the Paris Agreement, and the work of the G20 and Financial Stability Board in this regard. UNDERSCORES the use of the "do-no-significant harm" principle in strengthening the sustainability of finance. HIGHLIGHTS the importance of the stability of the global financial system and its climate resilience and therefore EMPHASISES the importance of transparency on sustainability aspects of finance, and mitigation of, climate related risks in the financial system.
6. UNDERSCORES the EU's initiatives to promote sustainable finance internationally, and WELCOMES the work of the International Sustainability Standards Board to develop a global baseline of sustainability disclosures, without constraining the ambition of regional or national approaches. Also UNDERLINES the importance of the ongoing work of partners in the International Platform on Sustainable Finance.
7. WELCOMES the growing number of domestic and regional sustainable finance frameworks and instruments as a necessary step to channel private and philanthropic capital to where it is most needed to implement the Paris Agreement. RECOGNISES the persistent challenge for partner countries to mobilise sustainable finance at scale and affordable costs. In that regard, HIGHLIGHTS the EU's and Member States' ongoing and increasing efforts to provide technical assistance on a bilateral and regional basis to develop credible and suitable sustainable finance frameworks and to scale up sustainability-related financial instruments. WELCOMES the recently set-up High Level Expert Group on scaling up sustainable finance in low and middle income countries to identify private finance for the implementation of the external dimension of the Green Deal and a green, just and resilient recovery in partner countries.

8. STRESSES the importance of greater cooperation with third countries and international organisations. In this context, WELCOMES the G7 statement announcing the aim to establish a Climate Club, as an intergovernmental forum of high ambition to support the effective implementation of the Paris Agreement by accelerating climate action, increasing ambition to reduce emissions, and promoting just energy transition. UNDERSCORES the ongoing work in the EU to implement ambitious emission reductions, including through the EU Emissions Trading System and the introduction of a Carbon Border Adjustment Mechanism to tackle carbon leakage and STRESSES that carbon pricing and phasing out environmentally harmful fossil fuel subsidies are key components of an enabling environment to shift financial flows towards climate-neutral, climate-resilient and sustainable investments.
9. RECOGNISES the importance of mainstreaming climate considerations into economic policy. Thereby WELCOMES the broadening engagement and membership of the Coalition of Finance Ministers for Climate Action and REITERATES the important role of the Coalition and its Helsinki principles.
10. RENEWS the strong commitment made by the EU and its Member States to deliver on the collective USD 100 billion per year climate finance mobilisation goal as soon as possible and through to 2025 from a wide variety of sources, and EXPECTS the goal will be met in 2023. REAFFIRMS the resolve of the EU and its Member States to continue working with other developed country Parties to swiftly implement the *Climate Finance Delivery Plan: Meeting the US\$100 Billion Goal* released ahead of COP 26. RECALLS that the EU and its Member States are the largest contributor to international public climate finance, and have more than doubled their contribution to climate finance to support developing countries since 2013. CALLS ON other donors to step up their efforts in this regard in line also with the COP26 Climate Finance Delivery Plan and LOOKS FORWARD to the Report on progress in the *Delivery Plan's* 10 collective action areas ahead of COP27.

11. ACKNOWLEDGES the call by the Glasgow Climate Pact to developed country Parties to at least double, by 2025, their collective provision of climate finance for adaptation to developing countries compared to 2019, in the context of achieving a balance between mitigation and adaptation in the provision of scaled-up financial resources. LOOKS FORWARD to cooperate with other Parties to respond to this call, while continuing to place a specific focus on the most vulnerable populations in countries and communities, particularly in the Least Developed Countries, and Small Island Developing States. REAFFIRMS the EU and its Member States' readiness to engage constructively in addressing barriers and constraints limiting the access to adaptation finance and ENCOURAGES developing countries to continue strengthening their engagement in this joint effort. In this context, WELCOMES initiatives such as the Champions Group on Adaptation Finance, which are committed to increasing the level, accessibility and effectiveness of adaptation finance.
12. EMPHASISES the importance of integrating climate action within the broader development planning and national financing frameworks of recipient countries, in support of the achievement of specific national targets related to Sustainable Development Goals. In that context, STRESSES the importance of gender mainstreaming. RECALLS that nationally determined contributions (NDCs), Long Term Strategies and National Adaptation Plans are key to the achievement of the goals of the Paris Agreement, ensuring transparency in implementation, regular monitoring, and continuous assessment of the effectiveness of funds provided.
13. WELCOMES the deliberations on the New Collective Quantified Goal on Climate Finance, taking place until 2024, and REAFFIRMS the EU's continued constructive engagement in these deliberations and its commitment to promote inclusivity. UNDERLINES the need for a broad and transformative approach in designing this new goal to ensure that all finance flows are made consistent with the long-term goals of the Paris Agreement, and therefore, effectively contribute to mitigation and adaptation, taking into account the needs and priorities of developing countries. Also HIGHLIGHTS the need to draw lessons from the implementation of the collective USD 100 billion per year climate finance mobilisation goal.

14. UNDERLINES the need to strengthen the action, support and global coordination for averting, minimising and addressing loss and damage associated with negative impacts of climate change. WELCOMES, in this context, the launch of the Glasgow Dialogue, where the arrangements for the funding of activities to avert, minimise and address loss and damage are discussed. UNDERSCORES the need to further mainstream a climate risk perspective into national planning processes and international cooperation. WELCOMES international initiatives designed to better shield developing countries from the adverse effects of climate change, including by mobilising innovative tools and sources of finance, such as the G7 initiative of the Global Shield against Climate Risks aiming to strengthen the global climate and disaster risk finance and insurance architecture to become more coherent, systematic and sustained. SUPPORTS the objective of integrating 'response to the negative impact of climate change' into the design and delivery of humanitarian and development aid, as this could be essential to building and enhancing the resilience of vulnerable communities.

15. RECALLS that International Finance Institutions (IFIs), including Multilateral Development Banks (MDBs) and other Development Finance Institutions (DFIs) have an essential role in mobilising finance at scale to significantly increase climate action, and high-impact private and public investment to achieve climate goals and have a leading role to play in setting ambitious standards for the broader sector. CALLS ON those MDBs that offer policy-based financing to scale up the use of this approach in order to foster ambitious climate policy and regulatory reforms as well as transformative political framework conditions. WELCOMES the commitment of the Joint MDB Working Group on Paris Alignment and the Joint Climate Statement presented at COP26, whereby the MDBs commit to continue supporting the delivery of the NDCs in developing countries, aligning more broadly their financing flows with the Paris Agreement, and providing support for developing ambitious Long Term Strategies and just transitions. WELCOMES in this context, the leadership of several MDBs shown in their climate strategies and plans. CALLS on MDBs and other DFIs to continue their efforts to increase, provide and mobilise adaptation finance. CALLS ON those MDBs, other DFIs and Export Credit Agencies that have not yet done so, to adopt and implement Paris alignment strategies ahead of COP27, including in relation to financial intermediaries and other counterparties to set out how they collectively plan to report on the alignment of their portfolios by COP27. REITERATES the Council Conclusions on export credits announcing that the Member States are to determine by end of 2023 their own science-based deadlines for ending support for export credits to fossil fuel energy sector projects, unless in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement. INVITES in this regard, the MDBs, other DFIs and export credit agencies to phase out financing of fossil fuel energy sector projects as soon as possible, unless in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement. INVITES the IFIs to set out concrete plans to mobilise increased climate finance including from the private sector, to increase investments in both mitigation and adaptation action, and with proper consideration and application of the do-no-significant harm principle throughout all financing operations.

16. REQUESTS the European Commission to provide an overview of international climate finance flows from the EU, including from the European Investment Bank, and its Member States for 2021 and for the Council to endorse this contribution prior to the UNFCCC COP27.

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