

**22 June 2022**

Dear Member State Leaders and Ministers,

The Institutional Investors Group on Climate Change (IIGCC) is the leading European membership body enabling the European investment community in driving significant and real progress by 2030 towards a net zero and resilient future. IIGCC's 375 members, representing €51 trillion AUM, are in a position to catalyse real-world change through their capital allocation decisions, stewardship and engagement with companies and the wider market, as well as through their policy advocacy. IIGCC plays a leading role in a number of net zero alliances and corporate engagement initiatives, including the [Paris Aligned Investment Initiative](#), [Net Zero Asset Managers Initiative](#), and [Climate Action 100+](#).

I am writing to you ahead of the upcoming European, Energy and Environment Councils to underline our strong support for an ambitious and speedy resolution to the ongoing negotiations on a number of EU "Fit for 55" files.

It is crucial that we retain within our grasp a viable and financially stable future. To support this, the right enabling policy frameworks are essential if investors are to achieve net zero, to ensure that assets are resilient to the impacts of climate change, and to maximise the economic and investment opportunities presented by new technologies and business models. The pursuit of longer-term climate objectives will also leverage co-benefits to address the current energy security and cost of living crises, as well as set a positive example globally in the run up to COP27 and the expectation on all governments to step up their Nationally Determined Contributions.

To achieve this vision, we urge Member State governments to reach rapid agreements that are consistent with net zero emissions, and underpin implementation of the EU's carbon neutrality goal.

#### EU Emissions Trading System (ETS) and Carbon Border Adjustment Mechanism (CBAM)

Investors support a fair, transparent and effective EU ETS and CBAM. Given the strong links between the two instruments, we support negotiating them jointly and firmly in the context of the wider EU "Fit for 55" Package and its overarching emissions reduction target, and the REPowerEU objectives.

In order to uphold environmental integrity and therefore investor confidence in the system, it is critical that the CBAM is designed and implemented as an alternative (rather than a complement) to the existing EU ETS carbon leakage rules, including free allocation. This would be in line with the long-overdue phase-out of free allocation, ideally by 2032, and the polluter pays principle. In addition, it is vital that surplus allowances are eliminated from the market in order to reflect a robust carbon price. This would entail further strengthening of the Market Stability Reserve (MSR), for example by increasing the intake rate of allowances from the Commission's proposed 24% to 30%.

In order to support optimal functioning of the EU ETS' underpinning mechanisms – including auctions – we oppose any form of restricting market access. Diversity of participation in the ETS is essential to support liquidity and reduce price volatility. ESMA did not find any major issues in ETS market functioning. Stronger market monitoring of the ETS by ESMA could be useful.

The Modernisation Fund is an extremely useful mechanism for supporting the transition in low-income Member States, which in the context of a just transition and the ongoing energy price crisis forms a vital component of the policy signals required for investors. The Modernisation Fund should uphold the same environmental integrity principles as the wider EU ETS, excluding investments in high emitting energy sources such as fossil fuels.

### Energy efficiency and renewables

IIGCC and its members support ambitious Energy Efficiency and Renewables Directives which send clear policy signals to investors on what can constitute energy savings, a mandate for higher rates of renewables, and robust energy efficiency targets to support EU energy security.

High level targets are a critical aspect of this: analysis has shown that the technical potential for EU energy efficiency in the current decade is [over 45%](#), and that there is a need for a [50% share](#) of renewable energy in gross final energy consumption by 2030 if EU commitments are to align with the goals of the Paris Agreement.

To underpin these targets, IIGCC supports a rapid rollout of renewable energy, including the development of energy system integration measures, prioritising energy efficiency and direct electrification, a fully compliant power grid, and innovative solutions to long-term storage. In addition, to support the investment decision-making process and the allocation of capital towards clean energy, it is critical that the Commission's REPowerEU [Recommendation](#) to **tackle slow and complex permitting for major renewable projects** is implemented, and that guarantees of origin and certification schemes for renewable energy provide clear and comparable data based on whole life-cycle emissions.

### Energy performance of buildings

IIGCC supports the revision of the Energy Performance of Buildings Directive taking a whole life-cycle approach to carbon emissions in order to unlock the full mitigation potential of the sector. We recommend:

- Requiring that a building's energy use meets minimum performance standards based on building and country specific emission reduction curves developed by the EU and investor funded CRREM project, harmonising Energy Performance Certificates and checking embodied carbon;
- Setting minimum disclosure requirements on embodied carbon across the whole value chain to promote greater data availability and stimulate demand for greener construction materials, in order to support mandatory standards and benchmarks;
- Ensuring that the renovation obligation for public buildings in both the Energy Efficiency and the Energy Performance of Buildings Directives cover all public buildings, including social housing;
- Enabling energy companies to contract for building renovation instead of fossil fuel imports, through a Pay for Performance market; and
- Stepping up the Renovation Wave at pace, including the roll out of Green Mortgage Portfolio Standards.

Our members take a long-term perspective on behalf of their beneficiaries to ensure that returns support a sustainable and prosperous future. They firmly support the development of robust and ambitious policy frameworks which align with the goals of the Paris Agreement and provide clear pathways across key sectors to achieving a net zero and climate resilient economy. They stand ready to invest in the necessary infrastructure and wider solutions to support Europe's energy transition, reinforced by the right enabling policies. We welcome your consideration of our concerns and are eager to continue working with you to drive significant and real progress by 2030 and beyond.

On behalf of IIGCC,

Stephanie Pfeifer

**CEO IIGCC**

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***Disclaimer:** This letter was developed in collaboration with a number of IIGCC members, but does not necessarily represent the views of the entire membership, either individually or collectively.*