

Letter regarding the review of Renewable Energy Directive 2018/2011/EU (RED II)

Dear Sir/Madam,

I am writing to you with regard to the consultation on the Review of Directive 2018/2001/EU (RED II) on the promotion of the use of energy from renewable energy sources.

The Institutional Investors Group on Climate Change (IIGCC) has more than 275 members, mainly pension funds and asset managers, representing over £35 trillion in assets under management. Our members are invested in long-term holdings across all economic sectors and geographies, making them uniquely exposed to systemic global challenges such as climate change.

As the leading investor group on climate change in Europe, IIGCC welcomes the EU's revised 2030 greenhouse gas emissions reduction target of at least 55%, the European Commission's 2030 Climate Target Plan and commitment to review energy legislation in line with this revised target. This letter sets out recommendations from investors to feed into the review process for the revision of the RED II.

RED II should be revised to reflect higher climate ambition, with a renewables target of at least 40% in final energy consumption by 2030¹.

Renewable energy will be essential for delivering the EU's higher climate ambition for 2030 and carbon neutrality by 2050. A renewables target of over 40% in final energy consumption by 2030 is needed to support the extremely high renewables penetration rates required to achieve net zero emissions by 2050. This level of increased ambition is essential as, without additional efforts, the EU is on track for only a relatively incremental increase in renewables to 2030 and 2050, and not the step change needed to align with net zero emissions.

In addition to increasing the renewables target, an updated energy efficiency target of over 40% in primary and final energy consumption by 2030 (an increase from the current target of 32.5%) is also needed, since maximising energy efficiency is also a key measure to achieve net zero emissions. The International Energy Agency reports that the rate of energy efficiency improvements has slowed down and the EU did not meet its energy efficiency target.²

Efficiency gains across all sectors will continue to be vital for EU member states seeking to meet their 2030 renewable energy targets (as less energy consumption automatically increases the share of existing renewable energy consumption), especially as renewable energy deployment in several EU countries has not been sufficient to meet their renewable goals.³

The European Commission's assessment of 16 September 2020⁴ shows that the combined renewable energy commitments of Member States, as outlined in their National Climate Energy Plans (NCEPs), is estimated at 33.1%- 33.7%, which would fall short of the over 40% renewables target recommended. The enhancement of NCEPs is required to align with the EU's overall objective of net zero emissions by 2050. These ambitious targets at the national level must be supported by a strong regulatory framework

¹ Please refer to IIGCC's report: *Ambitious EU 2030 action essential for achieving net zero emissions*, available [here](#), for more info.

² The International Energy Agency, European Union 2020, available [here](#), accessed 8 January 2021.

³ The International Energy Agency, European Union 2020, available [here](#), accessed 8 January 2021.

⁴ National energy and climate plans (NECPs), European Commission website, available [here](#), accessed 6 January 2021.

that provides concrete, near-term, sector-specific market signals to mobilise the high levels of private finance required to fully fund the European Green Deal.

RED II should be revised to support significantly improved uptake of renewables in the power and utilities sector⁵

At both the global and EU level, the power sector sits at the heart of the energy transition and is critical to the transition of many other sectors. As underlined by the Impact Assessment accompanying the EU's 2030 Climate Target Plan, emissions must be reduced in the power sector by up to 70% between 2015 and 2030, if the EU is to reach an at least 55% reduction in greenhouse emissions by 2030. The decarbonisation of the power sector will require increasing the capacity of renewables, batteries, renewable hydrogen⁶, biofuels, and carbon capture and storage and the RED II should be revised to encourage uptake of these technologies.

RED II should be revised to support significantly improved uptake of renewables in the transport sector

IIGCC supports increasing the share of renewable energy in transport to at least 24% in 2030 (as indicated by the impact assessment accompanying the 2030 Climate Target Plan) and the achievement of this goal largely through electrification in the road transport sector, prioritising renewable fuels for more challenging sectors like heavy-duty aviation and maritime. For these sectors, the revision of RED II should focus on addressing the slow uptake of renewable fuels across the EU.⁷ Specifically, the Commission should further the work of the reFuel EU and FuelEU Maritime initiatives to develop advanced biofuels and fuels derived from green hydrogen which can meet the needs of the aviation and maritime sectors.

Investors would welcome clarity on the timetable and milestones for transitioning the energy sector to net zero emissions.

In addition to raising the climate ambition of and strengthening specific energy policy measures, clarity is needed from EU policymakers regarding the net zero transition pathway for the energy sector overall with concrete, near-term, sector-specific market signals that can adequately guide investors' decision-making. This is needed especially for carbon-intensive sectors such as energy (including electricity, heating and cooling), transport and industry.

This sector-level clarity would support a harmonised understanding of the net zero transition pathway by investors, companies and policymakers and, in turn, speed up the deployment of capital aligned with net zero.

This could be set out within sector roadmaps (or otherwise), and would include:

- The emission reduction pathway per sector pre-2030 and pre-2040 that, in aggregate, achieves net zero emissions across the economy.

⁵ Please refer to IIGCC's working paper: Accelerating the transition to zero emissions in the power sector, available [here](#), for more info.

⁶ Hydrogen produced using mainly wind and solar energy.

⁷ <https://www.eea.europa.eu/data-and-maps/indicators/use-of-cleaner-and-alternative-fuels/use-of-cleaner-and-alternative-5>

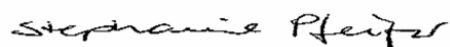
- The timetable for key transition milestones such as phasing out fossil fuels, except for clear exceptions where technology solutions do not exist, and phasing out direct and indirect fossil fuel subsidies.
- The anticipated timetable for key infrastructure and technology changes to transition sectors to net zero, ideally highlighting the scale of associated investment opportunity.

Investors would be able to utilise these sector transition pathways, for example, to set targets for portfolio emission reductions consistent with these net zero pathways, engage with companies regarding their transition planning, evaluate the potential for stranded assets, assess the need for asset write-downs and inform timetables for potential divestment.

We would welcome the opportunity discuss these suggestions with you and engage further as the Commission takes forward the review of RED II.

On behalf of IIGCC,

Stephanie Pfeifer



IIGCC CEO