Business letter on the upcoming EU Fit for 55% Package

Dear President of the European Commission, President of the European Council, Minister Andrej Vizjak and European Commissioners

As business leaders with a stake in the EU, we see a once in a lifetime opportunity to deliver the transition to a net zero economy, as the world invests in the post- covid-19 recovery and as the world's biggest economies, corporations and investors themselves commit to a race to zero.

It is clear that the Green Deal and the EU's growth strategy are one and the same, and that the upcoming "Fit for 55%" package of climate legislation can provide the engine for that strategy.

We have the opportunity now to turn commitments into action and deliver the EU's net target of at least 55% reductions in GHG emissions from 1990 levels by 2030. This will be critical to putting the EU on a trajectory to climate neutrality by 2050 at the latest and supporting global efforts to hold temperature rise to 1.5°C above pre-industrial levels.

Action now will boost a green, digital and inclusive economic recovery in the wake of the covid-19 pandemic and develop EU economic strength in the growing new industries and clean markets of the future. By managing social concerns across the proposals, the EU can deliver economic prosperity for all and increase the ability of current and future generations to deal with climate change.

Below we set out ten principles for an effective and coherent package of legislation to seize this opportunity and demonstrate EU leadership in the run up to COP26:

1. **Provide policy certainty for business** through governance and regulatory frameworks and transparent stakeholder engagement. The package should provide a predictable framework for businesses to invest in future growth and innovation, step up their climate ambition, create jobs that last, and deliver economic benefits for society.

2. **Send a strong signal that Europe's economic recovery will be achieved through climate action.** Studies have clearly shown that investing in green recovery packages deliver benefits across the economy – for jobs, GDP as well as emissions cuts. In addition, we know that early investment leads to a cheaper low carbon energy system than the fossil-based system it replaces, even without the huge costs of climate change and other related costs like the health impacts of air pollution. Measures to deliver a 'nature positive' economy are also good for the long-term resilience and health of the economy.

3. **Plan for potential ambition increases beyond 55%** as changes in technology and circumstances enable more rapid action. This is particularly important given that 55% is on the lower end of the ambition needed to achieve the EU's goal of climate neutrality. The current 'net' target should be supplemented with additional clarity on how the contribution of carbon removals from land use, agriculture and forestry, as well as technology-based solutions, will effectively enable the EU to go beyond 55%, while maintaining or strengthening the level of ambition for reductions. The EU should be actively looking to promote investments in nature-based solutions and other forms of carbon removal.

4. **Ensure coherence across European policy - from finance to industrial, circular, digital, employment and nature.** New climate legislation should be backed up by a range of measures including: the Next Generation funds, new sustainable finance packages, new initiatives on jobs and skills, measures to

advance the contribution of digital solutions, and the European Semester. It will also need to be delivered through a new industrial policy that is fully aligned with the new targets, as well as through measures to develop the circular economy. Actions to reshape the EU's relationship with land, nature and biodiversity such as the Farm to Fork Strategy and the goal of preventing nature loss by 2030 should also be treated as a key part of this transition which needs to deliver both a climate neutral and also a nature positive economy. Without this approach synergies between different sectors may be missed, undermining ambition and raising costs.

5. **Accelerate the transition of our energy systems,** and push towards 100% clean power by 2040. This will entail rapid shifts towards electrification based on renewables and low carbon energy, and implies that the EU's renewables target should be at least 40% by 2030 if not higher, while coal is phased out and the fossil gas sector is rapidly downsized. Existing alternatives should be also deployed at full speed; with, for example, only zero emissions passenger vehicles sold by 2035, and solutions such as green or fossil free hydrogen focused on hard to abate sectors such as heavy industry and aviation. To prepare for a increased deployment of renewables in the power system, there should be focus on targeted investments in grid infrastructure and smarter, digitally enhanced grid operations to sustain affordable, reliable, and zero-carbon electricity services. Advancing fair access to clean energy and addressing issues of climate equity and a just transition will be equally important.

6. **Deliver on energy efficiency and the decarbonization of sectors such as the built environment**, through accelerating energy renovation, electrification and digital solutions and strengthening the Energy Efficiency Directive and Energy Performance of Building Directive. Buildings are the EU's biggest source of emissions and its most valuable financial asset class. Delivering the Renovation Wave strategy will be critical in the coming years to manage the social implications of the transition by making benefits more visible to households and driving job creation. This must go hand in hand with EU technical assistance to help build up planning and administrative capacity in ministries, regions, cities and local authorities.

7. **Balance increasing carbon pricing signals with focussed regulatory action** to drive investments in key areas like building renovation and EV charging infrastructure. First of all, strengthening the EU's Emissions Trading Scheme in line with the new ambition is essential and all revenues should be directed to activities that are compatible with the climate neutrality objective. In addition, any extension should be accompanied by a focus on support for affected communities and advancing climate equity, as well as alignment with existing effective policies such as the CO_2 standards for road vehicles and actions at national level. There is still a clear role for the Effort Sharing Regulation to ensure that Member States remain responsible and accountable for lowering emissions sectors beyond the ETS and are incentivised to take the necessary measures.

8. **Align fiscal levers to support the net zero transition.** Level playing fields across the EU internal market are important for sustaining investments into clean energy and focusing innovation on the most competitive clean technologies and fiscal measures have a major impact on that landscape. Efforts to bolster investment, competition, and innovation should include phasing out subsidies for producing and consuming fossil fuels. Removing such subsidies reinforces existing market mechanisms within the EU and strengthens the efficacy of the EU ETS and other initiatives to price carbon.

9. **Develop and deliver an effective strategy to ensure competitiveness for current and future industries in a net zero world.** The race to decarbonise economies across the globe is rapidly taking place,

providing competitive advantages to those able to build key climate neutral industries and value chains. While carbon leakage should be addressed, this should in a way that does not jeopardize wider international collaboration or policy coherence. As well as considering a Carbon Border Adjustment Mechanism, other measures could be considered, particularly CO_2 materials and product requirements that can deliver on both decarbonisation and competitiveness. Overall, the package should seek to strengthen the EU's leadership position as a credible, cooperation-oriented, international standard and agenda-setter and demonstrate its ability to offer a model of the economic transformation to climate neutrality that will appeal to its international partners.

10. **Support demand as well as supply, by stimulating and enlarging markets for climate neutral goods and services**. This would include setting embedded CO_2 limits on final material-rich consumer products; developing reporting requirements and CO_2 labelling for key value chains; and deploying targeted, temporary measures to promote investment in production of innovative zero-carbon materials or technologies.

To date CLG Europe members and hundreds of companies around the world have committed to ambitious climate commitments in line with the Paris Agreement, including setting a science-based emission reduction target, boosting energy productivity, electrifying vehicle fleets, switching to 100% renewable electricity or committing to achieving net zero emissions by 2050 or indeed earlier. We are ready to work with you to help accelerate climate ambition.

This is a time for bold and transformational action.

Yours sincerely

Signatories:

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Ignacio S. Galán, Chairman & CEO, Iberdrola
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