REPORT

Following the High Level Group meeting on 11 June 2025

Summary and main outcomes of the meeting

During its 16th meeting on 11 June 2025, the independent tripartite High Level Group on Financing Sustainability Transition chaired by Pier Carlo Padoan continued its role as a laboratory for EU policy innovation. This role was given following an initiative from the Council Presidency in 2011, aiming at improving inclusive innovation by thinking "outside the box".[1] Members include a diversity of experts from the public, private, and academic sector, discussing together according to the Socratic dialogue method to reach policy recommendations.[2]

The highlights of the meeting are as follows:

1. General aspects

- The international context has increased complexity and requires difficult trade-offs in EU policies. The shift from decades of affordable Russian gas and a stable U.S./EU relationship in defence and security, to a new era with rapid geopolitical evolutions, requires a more strategic thinking of European economic policy decisions and planning. In this context, **the energy transition and the increase of European defence capacities should be pursued together with a common objective of making Europe more resilient against external threats**.

- Climate and defence investments differ in proportion and in time horizon, but they are not contradictory in their objectives and can even converge in some areas (e.g., research). Choosing one over the other would harm Europe's economic stability and growth as significant financial risks would materialise in both cases. Completing the Single Market must be a top priority to achieve these objectives while mitigating their costs.

- The HLG calls on the EU **to refrain from excessive short-termism** and changes of long-term policy direction, and recommends instead to foster coherence in the objectives and investment priorities. This requires a more efficient financing of the energy transition (section 2) as well as a more strategic use of EU public funding (section 3).

[1] Council of the EU, 5-6 December 2011, Presidency Note.
[2] Members participate in their personal capacity. All recommendations for action and all ideas for further consideration have not always been agreed on by all Members, but they are based on a very wide consensus. Reports are written under the responsibility of the Chairperson and the Executive Director. More information: https://www.highlevelgroup.eu/

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2. Financing the energy transition

- **The on-going simplification of EU legislation (notably the sustainable finance framework) should aim at improving implementation, facilitating cross-sectorial coherence and ensuring predictability for investors and issuers, as well as reducing costs where appropriate**. The HLG discussed the state of the revisions proposed by the European Commission in the Omnibus 1 package and other revisions. While they welcomed in principle the objective of reducing the regulatory burden, they stressed the importance of equally relevant challenges for implementation such as the overall coherence of the framework and its long-term predictability. They notably mentioned:
    - The sustainability reporting obligations (CSRD, CSDDD), where the reduction of data points as already proposed by the Commission should enable to keep a sufficiently large scope of covered companies, so that sufficient information remains available to investors;
    - The European Sustainability Reporting Standards (ESRS), where the absence of development of sector-specific standards should be compensated by guidance to facilitate implementation;
    - where the reduction of data points should enable the development of sector-specific standards and facilitate implementation by issuers;
    - The green asset ratio (GAR) for banks, which requires a revision of the calculation methodology for more meaningful and usable information and a single ratio;
    - The revision of the Sustainable Finance Disclosure Regulation (SFDR), where there is a potential for simplification regarding the categorisation of products (e.g. a new transition investment category, with limited exclusion criteria under the Paris-Aligned Benchmarks or exceptions to exclusions for those with a significant share of investments in transition activities would enabler a broader coverage and incentivisation of transition investments in all activity sectors);
    - The transition plans as referred to in various legislations (CSRD, CSDDD, Taxonomy, CRD, CRR) where there is a need for more coherence, more credibility and better implementation, for example with a common methodology and rating.
    - The EUDR methods should be reformed in line with ESG and local operational conditions, while maintaining the overall objectives.[3]

- **The EU climate objectives for 2030-2050, as well as the new intermediary target for 2040, play a crucial role in driving public and private investments over a long-term horizon**.
    - New financial policy initiatives should continue to facilitate the energy transition, notably in the context of the Savings and Investments Union (SIU). The HLG stressed in particular the importance of the securitisation rules (pending review) and the

[3] As per amendment proposals from the HLG on Forests & Biomaterials and the HLG on African Partnerships.

venture capital fund Regulation (EuVECA - pending review), where a potential for further investment capacities exists while retaining a high level of financial stability.

- Key recommendations from the Draghi, Letta and Noyer reports on the competitiveness of the European banking and financial sector should be prioritised, such as revised supervision measures and a new market infrastructure package, aiming to reach economies of scale and to remove national barriers in capital markets, while keeping a high level of financial stability.
- The EU climate objectives and the EU sustainable finance framework do not constitute obstacles to security and defence investments. In the context of the upcoming revision of the European Climate Law for the EU 2040 climate target, it is critical to maintain long-term coherence and to preserve value of past and current investments.

3. Climate investments and prioritisation needs ahead of the new Multiannual Financial Framework

- **The HLG reviewed the state of climate investments in the EU:**
  - Research shows that current levels of public and private investments in energy, buildings, transports and cleantech represent around 60% of the total annual investment needs to meet the EU climate targets for 2030 (i.e. 498 bn EUR out of 842 bn EUR of total annual investment needs, accounting for 4.9% of the EU GDP, with a 344 bn EUR of climate investment deficit in 2023).[4]
  - Some sectors are benefiting from an investment surplus and should meet the EU targets according to current investment levels (e.g. heat pumps, cleantech, solar). However, international competition affects the demand and profitability of EU-based investments (e.g. batteries). Others are suffering from an investment gap and need further resources to meet the EU targets (e.g. energy renovation in buildings, wind).

- **On this basis, the HLG stressed a number of policy considerations ahead of the upcoming negotiations on the next EU Multiannual Financial Framework (MFF 2028-2034):**
  - Strategic prioritisation of climate investments should drive the MFF negotiations. EU public investments should be better informed in a context of constraints on public expenditure and ahead of the start of reimbursements of the NextGenerationEU plan in 2028. A systemic climate investment gap or benefit analysis per sector could enable such strategic prioritisation.
  - EU public investments should focus on projects with high European added value (such as cross-border energy infrastructures) and where a high leverage of private investments can occur (such as de-risking schemes, guarantees, revenue certainty mechanisms, contracts for difference).

[4] Institute for Climate Economics, The state of Europe's climate investment, June 2025.

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Financing Sustainability Transition

- The National Energy and Climate Plans (NECPs) should evolve towards comprehensive investment plans at national level and could play a central role in the governance architecture and operational functioning of EU funding.
- The competitiveness dimension of climate investments should be better considered when selecting projects, for example in the framework of the Net Zero Industry Act (NZIA) and the future European Competitiveness Fund. The EU commercial potential of projects vs. international competition should be systematically assessed before project selection.
- Energy and defence both require a high level of predictability to enable long-term investments and value creation. Dual-use spendings related to e.g. research and innovation should be facilitated, notably in the context of the existing funding instruments (NextGenerationEU, Horizon).
- Flexibility should facilitate the implementation of the EU MFF, but it should not jeopardise its overall coherence and objectives. The EU MFF should keep a degree of multiannual coherence with long-term stability.

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