

## **Advancing the debate on setting post-2030 EU climate targets**

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### **The upcoming debate on new climate targets for 2035 and 2040**

Whilst it was initially designed as a policy framework to mitigate climate change, the Green Deal has ended up offering a wide range of solutions for economic recovery from the COVID pandemic and unprovoked Russian war in Ukraine. Many measures that fast-track the energy transition and energy savings also create benefits for households and businesses in the mid-term and could shield them from a future cost-of-living crisis.

As the EU institutions are finalising laws to implement the 2030 climate and energy goals, the first formal Global Stocktake under the Paris Agreement is approaching at the end of the year. This is likely to create a seamless transition from the focus on 2030 to the political choices that define the decarbonisation trajectory for 2035 and 2040.

Whilst countries will assess progress on all pillars of the Agreement (mitigation, adaptation, and finance) special attention will be given to updated pledges for 2030 and start the process to define new Nationally Determined Contributions (NDCs) for 2035 or 2040.

### **Two policy cycles have already converged**

At the G7, the EU signed up to 'achieving a fully or predominantly decarbonised power sector by 2035'. Meanwhile, the recently adopted EU laws also include a fleet-wide target for 2035 to reduce the CO<sub>2</sub> emissions produced by new passenger cars and light commercial vehicles by 100% compared to 2021. Industry and power sectors will need to reach net-zero in 2039 under the Emissions Trading Scheme (ETS1) as no new allowances will come on the market as of then.

Anticipating decarbonisation trajectories beyond 2030 informs investment decisions and policy choices that are taken today. The debate on the EU's 2035 and 2040 climate goals is, therefore, the natural next step for providing predictability and investment security on the way to climate neutrality by 2050 at the latest.

### **Advancing the debate on new climate goals**

The EU climate law requires the European Commission to publish a legislative proposal on a 2040 climate target 'at the latest within six months of the first global stocktake'. However, there is a risk that a target proposal in late spring 2024 coincides with a period in which it will receive no political attention as the focus will be on the European Parliament elections in May and their subsequent implications for the new leadership of the EU institutions. If a proposal is issued in spring, neither the Council formations nor the European Parliament will be able to discuss it until the Council



Presidencies are led by Hungary (as of 1 July 2024) or Poland (as of 1 January 2025) respectively. This provides a severe challenge in a global context: An adoption of the targets only under the Danish EU Presidency in autumn 2025 could prevent the EU from setting a good example with a high quality, ambitious NDC and thus undermine the EU's role as an international climate leader.

**Strategic Perspectives recommends starting the discussion on the new 2035 and 2040 climate goals in autumn this year with a view to reaching an agreement under the Belgian Presidency at the latest in June 2024. Commission President von der Leyen's State of the Union speech on 13 September provides an ideal opportunity to make the new goals part of her legacy.**

The targets would then guide the priorities of the next European Commission's mandate and subsequent implementing package of laws. At international level, the EU can provide a meaningful political response and contribution to the mitigation section of the Global Stocktake and COP28 (hosted by the United Arab Emirates). As an 'early mover' the EU has an opportunity to set a high bar for what an ambitious target looks like and can seek allies amongst G20 countries, as well as traditional allies in developing countries, to align around the same timeline.

### **Industrial transition as a priority for the next decade**

The Russian war in Ukraine and its disruptions for the energy supply have undermined the credibility of gas being a cheap, reliable, and abundantly available transition fuel. The competitiveness of companies that had based their economic model on cheap gas has suffered as a result. In addition, the EU and national governments are shaping the response to the US' Inflation Reduction Act (IRA) at the time the debate on the post-2030 climate targets begins.

Integrating these conversations will ensure that the future of the EU's industry is adequately addressed across policy frameworks and funding mechanisms. Consequently, the EU and national governments will be able to properly plan for the net-zero modernisation of the current industrial base, as well as support and invest in the rapid growth of the zero-emissions technology industry.

**Strategic Perspectives recommends that the European Commission also provides the following elements in its publications on 2035 and 2040:**

- 1) a detailed overview of ambitious electrification pathways**
- 2) the quantities of zero-carbon technologies required to substitute fossil fuels**
- 3) critical materials and components needed along the value chain.**

It will take a granular projection of investment needs, new zero-carbon industrial capacities and changes in the labour market to allow for proper planning of a well-managed transition. As many companies are seeking short-term solutions, this will allow governments to make financial support dependent on proper planning for transformations that are just for the workforce and in line with the adopted EU climate package.





### **An opportunity to integrate international cooperation from the outset**

As an early mover on the new climate targets, the EU will also be able to build new green economic partnerships. The detailed modelling of the transition can provide concrete material needs for the transition, not all of which can be sourced from within the EU. Any shortages or bottlenecks of supplies risk delaying or jeopardising the EU's transition. The timely availability of key technologies, raw materials and resources for the transition is not yet guaranteed. Diversifying trade relations is imperative to securing supplies of materials, as so prominently shown in the example of Russian fossil fuel imports. There is also potential that future economic cooperation can foster the decarbonisation of economies in non-EU countries.

**Strategic Perspectives recommends a new approach to economic cooperation that is at eye level with partners. A wide range of countries are seeking to advance their own transitions and can benefit from the EU's knowledge, policy frameworks and cooperation agreements. Growing green economies allows the creation of jobs in other countries as well as exports for the EU markets. Such partnerships are more successful if they benefit both economies alike, respect the needs of partner countries, and are in line with respective decarbonisation trajectories.**

Following Strategic Perspectives' recommendations on setting post-2030 climate targets puts the EU in a prime position to address the domestic concerns about the competitiveness of its industry and the diversification of supply chains while strengthening its role as credible international climate leader.



