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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Clean Planet for all: EU's strategic long-term vision for a climate neutral economy
– Policy debate

1. On 28 November 2018, the Commission adopted the communication ‘A Clean Planet for all: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy’.
2. Following sectoral discussions within the Council, on 20 June 2019 the European Council invited the Council and the Commission to advance work on the conditions, the incentives and the enabling framework to be put in place so as to ensure a transition to a climate neutral EU in line with the Paris Agreement.
3. At the meeting of the Council (Environment) on 4 October 2019, Ministers will be invited to hold a policy debate on the communication. The Presidency has prepared a background paper (in the Annex) and questions to help structure the discussion.

4. The Permanent Representatives Committee is invited to take note of the Presidency background paper, as set out in the Annex to this note, and to forward it to the Council in view of the policy debate.
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Clean Planet for all: EU's strategic long-term vision for a climate neutral economy**Background paper for the policy debate
at the Council (Environment) on 4 October 2019****INTRODUCTION**

Fighting climate change is one of the most – if not the most – pressing global challenges of our time. The 1.5°C special report of the Intergovernmental Panel on Climate Change (IPCC), released in October 2018, clearly demonstrated that climate action needs to be stepped up to avoid the most severe consequences of global warming. The EU stands at the forefront of ambitious climate action and the transition towards a sustainable, climate neutral economy. In this context and based on the Commission Communication ‘A Clean Planet for all’, submitted in November 2018 and setting out a vision for the EU’s transition to climate neutrality by 2050, extensive discussions have taken place in the Council and in the Member States with a view to adopting and submitting the EU’s long-term strategy to the UNFCCC in early 2020.

During the first half of 2019, in addition to the **Environment Council**, the Commission Communication was discussed in several Council formations addressing aspects specific to competitiveness, energy, transport, agriculture and forestry, as well as economy and finance. A number of horizontal aspects were raised by Member States throughout the discussions, namely the need for a cross-sectoral and holistic approach and a clear policy framework, the acknowledgment of the many opportunities, but also the significant challenges, presented by the transition, and the need to ensure a just and socially balanced transition. Member States agreed that sound enabling conditions must be put in place to support the transition. Some also pointed out that while the transition will require significant investment, inaction would also give rise to significant costs.

In its conclusions of June 2019, the **European Council** invited the Council and the Commission to **advance work on the conditions, the incentives and the enabling framework** to be put in place so as to ensure a transition to a climate neutral EU in line with the Paris Agreement that will preserve European competitiveness, be just and socially balanced, take account of Member States' national circumstances and respect their right to decide on their own energy mix, while building on the measures already agreed to achieve the 2030 reduction target. It was also noted that for a large majority of Member States, climate neutrality must be achieved by 2050. Furthermore, the **European Council** stated that it will finalise its guidance before the end of this year.

During the first months of the Finnish Presidency, the Council meetings held on 8 July (Employment and Social Affairs) and 20 September (TTE-Transport) concluded the round of sectoral debates. The transition to a climate neutral economy in the EU was also addressed at the Council meetings and discussions on the environmental and climate aspects of the post-2020 Common Agricultural Policy (**Agriculture and Fisheries Council** on 15 July), on the future of the energy sector beyond 2030 (TTE-Energy Council on 24 September), and on a long-term strategy for sustainable growth (Competitiveness Council on 26-27 September). In addition, discussions related to the transition to climate neutrality have taken place in a number of informal ministerial meetings during the Finnish EU Presidency.¹

Work has also continued at technical level during the Finnish Presidency, further contributing to a better understanding of the conditions, incentives and enabling framework to be put in place in order to ensure a transition to climate neutrality in a just and socially balanced manner. More specifically, discussions have focused on the employment and social aspects of such a transition, as well as the necessary financial instruments and investments in research, development and innovation.

¹ A discussion at the informal meeting of Ministers responsible for Competitiveness on sustainable growth on 4-5 July; a discussion at the informal meeting of Environment/Climate Ministers on circular economy, biodiversity and climate on 11-12 July; a discussion at the informal meeting of EU Defence Ministers on the impact of climate change on security and defence on 29 August; a lunch discussion at the informal meeting of Ministers for Economic and Financial Affairs on enhanced action on climate change on 13 September; a discussion at the informal meeting of Ministers for Agriculture on the role of farmers in climate action and on soil carbon sequestration on 22-24 September.

Building on and taking stock of the wide range of political and technical discussions held so far, the following sections set out the key points raised on the above-mentioned topics.

ACHIEVING A JUST AND SOCIALLY BALANCED TRANSITION IN ALL SECTORS

The need for a just transition has been highlighted in all Council discussions, in particular during the policy debate at the Employment and Social Affairs Council on 8 July 2019. Achieving a just and socially balanced transition is important for all Member States, but the challenges and their magnitude vary between countries and regions. Member States have explored how national and EU-level policies and programmes could best be used to support a just transition and to enhance job creation, and how businesses could best be supported so that they can promote employment opportunities in greener jobs.

In this context, Ministers have highlighted the impacts of the **transformation of the energy system**. The ongoing large-scale deployment of renewable and low-emission energy production and the vast potential for energy-efficiency improvements in the buildings sector will generate not only significant employment opportunities but also co-benefits such as improved health and quality of life for citizens. However, it will be essential to ensure that the energy transition does not lead to excessive costs for households, in particular those with a low income, or to more people being affected by energy poverty in the future.

In the course of the discussions, Ministers also stressed the fact that the transition will have an impact on the structure of employment, and might lead to potential shortages of skilled labour force in some sectors and areas, while jobs could disappear in others. The transition may have disproportionate effects on different regions, e.g. new job opportunities do not necessarily emerge in the same place as where old ones disappear. This concerns certain **industrial sectors** in particular. Therefore, while Member States recognise that industry has the potential to decarbonise through innovation and new technologies, it has also been noted that carbon-dependent industrial activities in particular, and the regions and citizens relying on them, face significant challenges.

Careful management of the transition, rooted in a high degree of social acceptability, is important to avoid negative impacts on social and regional disparities. In order to mitigate potential negative impacts, active labour market measures will be needed to ensure that workers, including low-skilled workers and the unemployed, have adequate opportunities for lifelong learning and access to training, upskilling and reskilling. Education systems also have a key role to play in equipping the workforce with the skills and competences needed during the transition in an inclusive and forward-looking manner.

Many Member States have highlighted that the EU should complement efforts by Member States, including through policy coordination and financial instruments and that the best use should be made of existing policies and instruments. The ability to attract private investments will also be crucial.

The **decarbonisation of the transport system** will both affect the lives of citizens and involve them as active participants in the process. The interlinkages between infrastructure, spatial planning, digitalisation and human behaviour will be important in determining how transport is organised in the future to reduce related emissions. Policy choices and incentives influence planning decisions on different transport modes and the development of new services and therefore contribute to consumer behaviour and choices, such as the uptake of less-polluting vehicles or means of transport. While the decarbonisation of the transport sector offers many co-benefits for citizens, including for their health through cleaner air and reduced noise, the transition should be managed in a way that ensures access to affordable mobility through, for example, the provision of public transport, including in scarcely populated or rural areas.

Agriculture and forestry sectors can contribute to climate change mitigation in multiple ways, presenting new bio-economy business opportunities, thus also helping to improve farm productivity and income in rural economies. Ministers have pointed out the need for support and incentives to encourage farmers to adopt environmentally advantageous practices, notably through the future Common Agricultural Policy (CAP). Ministers have also highlighted that national and regional specificities need to be taken into account, and that Member States should have sufficient flexibility within the overall CAP framework. This will enable the adoption of climate measures that best suit local needs and conditions.

While the transition to climate neutrality involves challenges, Member States agree that it can lead to many benefits for citizens and the economy, including the creation of new, high-quality jobs and new business models in all sectors (including in construction, renewable energies and the bio-economy) as well as significant co-benefits for biodiversity, air quality, public health and overall quality of life.

INVESTMENTS HAVE A CENTRAL ROLE IN ENABLING THE TRANSITION

Throughout the discussions, Member States have stressed that the transition to climate neutrality presents a significant investment challenge. There is a need for adequate funding – including at EU level – and investments in research, development and innovation in all sectors, in particular as regards energy production and use, in order to enable the deployment of new technologies and practices. Discussions within the Council have highlighted the importance of finance and investments in creating enabling conditions to support the transition. Member States have also emphasised the need for a stable and predictable regulatory framework in all the relevant sectors and for effective use of public funding to mobilise private investments. It has been acknowledged that the EU budget and the European Investment Bank will play an important role in supporting a just transition to climate neutrality. Environmental taxation, carbon pricing systems, revised state-aid guidelines and subsidy structures could also play an important role in steering the transition. In the transport sector, fiscal incentives are an essential tool for internalising the external costs of transport and for stimulating and enabling the transition to alternatively fuelled vehicles and low- and zero-emissions vehicles. In the agriculture sector, the future CAP should be even more ambitious, contributing to climate objectives through enhanced conditionality in the new green architecture.

At the Council (Ecofin) on 14 June, the Ministers responsible for economic and financial affairs highlighted the role of fiscal, financial and budgetary policies in ensuring the success of the long-term climate strategy and recognised the need for significant investments, which will need to come mainly from the private sector. They also stressed the fact that the implemented policies and measures need to be realistic, affordable, equitable and socially acceptable. Addressing the challenges of competitiveness in the global context was widely seen as essential. The competitiveness of the European economy should be maintained, and the modernisation of the economy should have as one of its objectives the creation of new jobs. The benefits of embracing change early and leading the transformational process globally were highlighted. Ministers also stated that the EU's legislative package on sustainable finance, which is currently being negotiated, could be an important tool in transforming the economy.

RESEARCH, DEVELOPMENT AND INNOVATION AS KEY DRIVERS FOR A CLIMATE NEUTRAL AND COMPETITIVE EUROPE

The importance of research, development and innovation (RDI) for the transition and the significant funding needed for it have been highlighted in all ministerial discussions. Therefore, a horizontal approach is needed, ensuring coordination between RDI and all relevant policies. A clear regulatory framework would also help to bring innovative technologies closer to the market. RDI is needed to create and deploy completely new solutions promoting climate neutrality as well as to improve the cost-efficiency of existing climate-friendly solutions. Research, including in social sciences, has a crucial role to play, and the dissemination of results should be improved. Diffusion of innovations is vital to deeply decarbonising the economy and improving competitiveness.

In relation to energy and transport, Ministers have stressed that there is a need for a wide range of technologies to reduce emissions, including new technologies. Whether in the context of future energy systems, transport modes or industry, many Member States have stressed the importance of technology neutrality as a principle, while new technologies are starting to find their way to the market. In the agriculture and forestry sectors, innovative technologies and improved farming practices will help to increase resilience and to reduce emissions. It has also been widely recognised that we need to stimulate the bio-economy and circular economy and make more use of digitalisation, knowledge transfer and sharing of best practices both at EU and Member State level.

It has been stressed that a forward-looking research and innovation strategy with a long-term perspective is needed to help low-carbon solutions become economically viable and to foster innovation. EU research should focus on transformational carbon-neutral solutions enabling systemic and structural changes in the EU economy. Pro-active European policies are needed to define how initial deployment can be further supported. Fully exploiting the Single Market, e.g. through clean public procurement and targeted, time-bound state aid, will be key. Multilateral R&D cooperation and public-private partnerships are vital in creating new markets and getting the research results into actual products.

There are a number of existing instruments at EU level to support RDI activities, including Horizon Europe and InvestEU, as well as the Innovation Fund under the EU ETS. These should be used effectively. In addition, national and regional governments and private sector actors are significant funders of R&D, and there is room for enhanced cooperation between the public and private sectors. It is important to enhance synergies between RDI actions by the EU, national governments, regional governments and other stakeholders.

CONCLUSION

In the discussions on the EU's long-term transition, Member States have underlined that the EU's transformation to a climate neutral economy would bring considerable first-mover advantages in the global context and reinforce the EU's competitiveness. Member States have highlighted the opportunities presented by the transition to a climate neutral EU, while acknowledging that challenges would also need to be overcome. The transition needs to be cost-effective, just and socially balanced, and the specificities of Member States and the role and needs of citizens must be addressed. To make this transition happen, the EU should make sure that it has in place the necessary incentives and enabling framework, and it must make the best possible use of them. These topics have been thoroughly discussed at political and technical level in order to provide Member States with a better understanding of the EU-level tools needed to put in place a strategy that will enable the EU to achieve an ambitious long-term transition to a prosperous, modern, competitive and climate neutral economy.

QUESTIONS FOR MINISTERS

Against this background, ministers are invited to hold a policy debate on the basis of the following questions:

- What are the main conditions, incentives and enabling framework that need to be prepared at EU level and be operational in the near-to-medium term and long term in order to achieve climate neutrality in the EU?
- What EU-level measures and actions, including sectoral ones, should be enhanced to decisively and swiftly contribute to climate neutrality in the EU by 2050?