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#### NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Communication on Europe's 2040 climate target – Exchange of views

1. To guide the exchange of views on the abovementioned topic at the meeting of the Council (Environment) on 25 March 2024, the Presidency has prepared the attached note and questions for Ministers.
2. The Permanent Representatives Committee is invited to take note of the Presidency note and questions and forward them to the Council for the exchange of views.

**Communication on Europe's 2040 climate target****- Exchange of views -****Introduction**

On 6 February 2024, the Commission published its Communication on a 2040 climate target<sup>1</sup>, which presents a vision beyond 2030 in the context of intensifying climate change and its accelerating real-life costs. It sets out a vision for Europe as a continent with a strong industrial ecosystem, clean, low-carbon, affordable energy and sustainable food and materials, that will deliver for EU citizens and make the EU resilient against future crises. Based on a thorough impact assessment, the Communication recommends a target of 90% reduction in net greenhouse gas emissions by 2040, compared to 1990, to keep the EU firmly on a path to climate neutrality by 2050. The recommended target is deemed to correspond to scientific advice and to be in line with commitments under the Paris Agreement. The Communication is intended to launch a comprehensive debate on the future post-2030 climate policy framework. The legislative proposals incorporating the 2040 target in the European Climate Law and subsequent sectoral measures will be put forward by the next Commission.

In the Council, detailed examination of the Communication and impact assessment at the Working Party level started on 12 February 2024. Due to the cross-sectoral nature of climate policy, the Presidency is actively associating representatives from other Council sectors in those discussions.

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<sup>1</sup> Doc. 6291/24 + ADD 1-6

## **Towards a just transition and competitive sustainability**

According to the Communication, electrification will be at the heart of the transition to a fully decarbonised power system by 2040 for buildings, transport and industry. The transition away from fossil fuels will increase the EU's independence and open strategic autonomy and reduce the risk of price shocks. While renewable energy will become the backbone of that transition, all low-carbon energy solutions will be needed. Decarbonisation of industry will require a more circular economy, increased use of carbon capture technologies and development of low carbon solutions, as well as a regulatory and financing environment that supports the EU's competitiveness. To address the need for an increased role for industrial carbon removals in hard-to-abate sectors (as a complement to land-based removals), on 6 February 2024 the Commission published a Communication on industrial carbon management<sup>2</sup>.

Emissions from the transport sector should be decarbonised by close to 80% by 2040 relative to 2015 through strong investment in infrastructure, technological solutions, carbon pricing, deployment of low carbon fuels and modal shift. Greenhouse gas emissions from agriculture and the land sector will need to be reduced while ensuring affordable, quality food production in the EU. The Communication highlights the need for coordination across the entire food value chain and more resource-efficient and biodiversity-friendly management of the land sector to increase its resilience to climate change.

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<sup>2</sup> Doc. 6306/24

The full implementation of the agreed 2030 framework is a key enabling condition for achieving the 2040 target. This must be complemented with a broad enabling framework for the two equally important objectives of the European Green Deal, namely just transition and competitive sustainability. Hence, there will need to be a greater focus on a just transition that leaves no one behind and a strategic dialogue, including with industry and the agricultural sector. Carbon pricing will remain a key driver for change, and the EU Emissions Trading System (EU ETS) will need to be supplemented by other mechanisms such as the efficient use of energy taxation and phasing out of fossil fuel subsidies. The required rapid deployment of zero and low-carbon technologies is expected to create a large domestic market for clean tech manufacturers and incentivise research and innovation. However, given that a true level playing field requires a global approach to carbon pricing, the EU should continue to engage in climate diplomacy to encourage carbon pricing initiatives in other jurisdictions.

### **Cost of inaction and climate action as an investment policy**

The Communication recalls that climate-related extreme events have increased between 1980 and 2022, causing 220 000 deaths and EUR 650 billion in economic losses over that period in the EU, of which about EUR 179 billion in the past five years. Consequently, it was decided to increase the EU's Solidarity and Emergency Aid Reserve by EUR 1.5 billion for the period 2024-2027. The Commission estimates the additional annual investment needs in the transition as 1.5% of GDP compared to the period 2011-2020, but stresses that inaction would lead to far greater costs in the coming decades, with a possible cumulative cost in terms of GDP lost of EUR 2.4 trillion between 2031 and 2050, which is a conservative estimate not including, for example, the risk of tipping points. Moreover, stepping up risk prevention and preparedness measures will improve the resilience of the whole economy and reduce the costs of the transition.

Strengthening the Capital Markets Union and deepening the Single Market will be necessary to ensure the level of private investments needed, with a key role for the European Investment Bank and other institutional financial actors to mobilise private investments, especially by de-risking projects, to unlock investments in infrastructure and provide a signalling effect to other market participants. Targeted public funding will allow the most efficient use to be made of existing instruments such as the Innovation Fund, auction revenues generated by the EU ETS, and the EU budget.

### **Questions for Ministers:**

Against this background, Ministers are invited to exchange views based on the following questions:

- *How should the EU pursue the transition towards climate neutrality in the context of intensifying climate change and its accelerating real-life costs? What do you consider to be important enabling conditions for the development of a post-2030 framework?*
  - *What economic sectors have the greatest potential to contribute to the transition after 2030 and where do you see the biggest challenges?*
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