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Research Report

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SWP Comment

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The Next Phase of European Climate Policy: Laying the Groundwork with the 2040 Target

Felix Schenuit and Oliver Geden

The outgoing European Commission has published its Communication on a 2040 climate target as its last major climate policy initiative before the 2024 European elections. By recommending a net emissions reduction target of 90 per cent compared to 1990 levels, it lays the strategic foundations for the forthcoming legislative period. At the same time, the policy initiative takes the opportunity to emphasise the growing importance of the interplay between industrial and climate policy, particularly with regard to carbon management technologies. Although reforming the EU's climate policy architecture for the years 2031 to 2040 will not begin until after the upcoming European elections, the Communication offers a glimpse into the political challenges that the German government will also have to face.

By recommending an ambitious reduction target for 2040, the outgoing Commission aims to initiate the transition to the next phase of European climate policy. Similar to the targets for 2020 and 2030, this marks the start of policy planning and public debate on the desired level of ambition and essential climate policy reforms leading up to 2040. This is a particularly important interim step on the way to achieving EU-wide greenhouse gas neutrality by 2050.

The Commission emphasizes that its recommendation of a 90 per cent reduction follows the advice of the newly established European Scientific Advisory Board on Climate Change. It also argues that the recommendation represents a continuation of the

current climate policy trajectory, when compared to a theoretical extrapolation of existing policy instruments up to 2030.

However, the ambitions of Member States are still insufficient to meet the 2030 target of 55 per cent. The Commission's assessment of national climate and energy plans (NECPs) at the end of 2023 showed a strong need for action, particularly in the agriculture and transport sectors. The analysis also indicated that meeting the 2030 target requires tripling the average annual rate of emissions reductions compared to the last decade. This gap in ambition between now and 2030 raises questions about the Commission's incremental development framework. Politically, the



framing is understandable: it only hints at the need to increase ambition, anticipating Member States' reluctance to act on climate change in the face of many other crises. Nevertheless, it overlooks the existing and potential political challenges inherent in EU climate policy that aims to achieve a 90 per cent target.

Regulatory successes

The European elections in June 2024 will bring an end to the current Commission's mandate. The next Commission is expected to take office by the beginning of November. Under Ursula von der Leyen, the Commission has left a deep mark on climate policy since 2019. As part of the European Green Deal, the "Fit for 55" package bundled the Commission's proposals to strengthen all legal acts adopted in 2018 aimed at meeting the original 2030 reduction target of 40 per cent, and to align them with the new 2030 target of 55 per cent as stipulated in the European Climate Law (Regulation 2021/1119).

The successful adoption of a large number of legislative acts through the Member States and the European Parliament, despite the challenges posed by the coronavirus pandemic, the Russian invasion of Ukraine and high inflation, is regarded as a significant achievement for the Commission. The European Green Deal, launched after the 2019 European elections, has led to a legally binding increase in ambition, the advancement of existing instruments and the development of new ones. These include the expansion of the existing Emissions Trading Scheme to include shipping, the creation of a second trading scheme for buildings and road transport (ETS-II), and a Carbon Border Adjustment Mechanism (CBAM) for the iron and steel, aluminium, cement, fertiliser, electricity and hydrogen sectors.

These successes demonstrate the political resilience of the majorities in favour of an ambitious climate policy and the stability of the climate policy framework established to date. They also showcase the functionality of

the EU's co-decision procedure. While other policy domains, such as health or energy policy, have been predominantly driven by crises, climate policy is more notably characterized by the regular updating of existing legal acts and instruments.

Nevertheless, the ambition gap described above clearly underscores how urgent it is to implement the targets and instruments that have already been agreed upon. In the coming years, weakening and backsliding initiatives pursued by individual Member States or a differently composed European Parliament are possible. European and national policymakers should therefore press ahead with securing the agreed level of ambition and mix of instruments.

The 2040 target: establishing the path forward

The timeline for the 2040 interim target agreed in the European Climate Law provides that the Commission will present the legislative proposal six months after the first global stocktake under the Paris Agreement, which was finalized at COP28 in December 2023. However, since this requirement clashes with the European elections in June, the Commission has chosen to first publish the Communication and defer the legislative proposal to the next Commission.

The new Commission is expected to reach an agreement and publish a proposal in the first quarter of 2025 at the earliest. It will not be bound by the level of ambition or target design recommended by the previous Commission.

The European Council's leadership

As with the setting of the 2020 and 2030 targets, the heads of state and government are likely to assert their claim to leadership and seek to limit the influence of the European Parliament in the process of setting new climate targets. Similar to the setting of the 55 per cent target for 2030, Member States could use the timely submission of

the EU's new Nationally Determined Contribution (NDC) under the Paris Agreement to shape the EU legislative process. Setting an NDC target for 2035 in such a way that would render a 90 per cent reduction by 2040 improbable is one approach for influencing the 2040 level. In addition to ongoing exchanges in the Council, initial agreements and course-setting could already be part of the meeting of heads of state and government in the European Council scheduled for the end of June, where the appointments to the top positions will be negotiated.

With its recommendation, the outgoing Commission seeks to anchor thematic priorities and set a level of ambition for the discussions among Member States and the subsequent debates in the new European Parliament. The recommendation on the 2040 target is therefore not only a handover of the baton to the new Commission, but also an attempt to pre-structure what is likely to be a controversial decision on political *terra incognita*.

The target recommendation in detail

The Commission recommends a net reduction of 90 per cent in greenhouse gas emissions by 2040 compared to 1990 levels. By proposing a net target, the Commission continues the paradigm shift introduced with the "Fit for 55" package, i.e. taking removals into account to reach the climate targets. As with the 2030 target, and in response to calls from many stakeholders, including environmental NGOs, political parties and companies, it proposes to split the net target into two ceilings: To achieve a 90 per cent net reduction, no more than 850 million tons (Mt) of CO₂ equivalent should still be emitted by 2040 (excluding emissions from land use, land use change and forestry, LULUCF), and a maximum of 400 Mt of CO₂ removal from the atmosphere would be allowed to contribute toward achieving the target. In percentage terms, this would correspond to a minimum reduction target of about 83 per cent and a CO₂ removal target

of about 8 per cent of 1990 gross emissions levels.

A key distinction from the 2030 target is that the proposed target architecture includes industrial CO₂ removal in addition to CO₂ removal in the LULUCF sector. This refers to technologies that remove CO₂ by capturing atmospheric or biogenic CO₂ and permanently storing it. In the impact assessment scenarios, bioenergy with carbon capture and storage (BECCS) and direct air capture with CCS (DACCS) are projected for large-scale deployment by 2040. To counter-balance residual emissions in other sectors, the power sector achieves net negative emissions in all scenarios by 2050, and in some scenarios already by 2040.

New potential for conflict

The detailed impact assessment shows that significant efforts will be needed to reach the 90 per cent target. These include, for example, a decarbonized energy system, a focus on defossilization in industry, and significant emission reductions in agriculture. The increased ambition, therefore, touches on sectors that have been the subject of intense parliamentary debate, demonstrations and protests in the last few months. Recently, the current Commission has had to water down some of its plans in the area of agricultural policy, not least due to a lack of majority within the European People's Party. In order to meet the overall reduction targets, the next Commission will have to push ahead with new measures to better integrate climate and agricultural policies.

Similarly, within the industrial sector, the prevailing political discourse is characterized not by objectives related to climate policy, but by concerns regarding the competitiveness and resilience of an industry beset by crises. The Commission is anticipating the political backlash in climate policy by proposing a "deal" for the decarbonization of industry as part of its recommendation. Given that the Net Zero Industry Act and the STEP (Strategic Technologies for Europe Platform) have fallen

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short of the expectations initially raised by the Commission, flanking climate policy with industrial policy is likely to be a key area of action for the next Commission.

Carbon management

The preparations for a new focus on industrial policy are also reflected in a Communication on industrial carbon management published in parallel with the 2040 recommendation. The prominent role of technologies for CO₂ capture and subsequent utilization or storage is an important interface between climate and industrial policy for which companies and industry associations have high expectations. All three variants of these technologies – carbon capture and storage (CCS), carbon capture and utilization (CCU) and industrial carbon removal (CDR) and their functions in climate policy (see SWP Comment 30/2023) – are considered by the Commission to be crucial building blocks for achieving the interim target by 2040.

The figures in the impact assessment for individual carbon management technologies are in some scenarios very high, and imply a rapid upscaling of all three approaches (280 Mt CO₂ by 2040, 450 Mt by 2050). Achieving these levels would require enormous resources and strong support for development. It would also demand a single European market for CO₂ transport and storage capacity.

However, beyond the synergies that such a single market for these technologies would bring, it would also give rise to new political conflicts: carbon management is sometimes the subject of highly controversial debates in Member States. In Germany, for example, CCS is a sensitive issue. The impact assessment's assertion that the absolute amount of CO₂ captured from fossil fuel combustion in the power sector will increase until 2050 is likely to cause irritation among environmental NGOs and some political parties. In addition, conflicts are likely to emerge both within and between Member States over the development of CO₂ transport infrastructure.

Next steps and implications for Germany

The Commission's Communication on a 2040 climate target should be seen primarily as a strategic intervention aimed at setting the tone and managing expectations. It remains to be seen whether the new Commission will follow the 90 per cent recommendation in its legislative proposal and whether the European Parliament will maintain its majorities for ambitious climate policy following the elections. In general, it will be an overarching goal of the Member States to claim de facto decision-making power in the European Council. In contrast to the Council of the European Union, the heads of state and government decide by consensus, which is usually a high hurdle in climate policy.

The debate on a new climate target comes at a politically unfavourable time for the German government. In view of the already controversial discussion on the amendment of the Federal Climate Change Act, the 2040 target will bring additional potential for conflict. What is more, the negotiations on the proposed legislation will take place in 2025 – a federal election year. One way for mitigating the anticipated dissent in the lead-up to the election campaign would be to aim for postponing the legislative process for the 2040 target until after a timely decision on the 2035 NDC is reached.

The diversity of voices in EU legislative processes that Germany's governing coalition has shown in recent months, along with the last-minute unravelling of compromises that had been agreed upon (e.g. on the Supply Chain Act or the CO₂ emission performance standards for trucks and buses) have tarnished the reputation of the German government in Brussels. However, given that Germany is the Member State with the highest emissions in absolute terms, its stance on the 2040 target will be an important benchmark for other Member States.

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