AmCham EU
SPEAKING FOR AMERICAN BUSINESS IN EUROPE

Our position

Europe's 2040 climate target and path to climate neutrality by 2050

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Executive summary

The European Commission’s proposal for a comprehensive dialogue on a future 2040 greenhouse gas (GHG) target is a positive and necessary step. However, as the Draghi report notes, aligning climate targets with strategic industrial initiatives is essential to ensure that Europe's climate ambitions do not come at the expense of its economic resilience. As the 2040 climate target conversation moves forward, it should remain focused on several key messages and recommendations:

- The 2040 enabling framework should be conditioned on achieving the EU’s 2030 climate target.
- Predictability and certainty are essential for strategic business planning and investment. The 2040 climate target should consider the EU’s global competitiveness and align with other key strategic initiatives. Alongside setting climate targets, the EU must resolve inconsistencies in existing legislation and address deficiencies in policy implementation to ensure a cohesive and effective approach.
- Because investments in nascent technologies (eg hydrogen, carbon capture, storage and utilisation) play a crucial role in delivering results, the EU’s funding approach must be tailored, simplified and flexible.
- In its new political cycle, the EU must deliver an overarching industrial plan that fosters economic growth in all industrial sectors. To lead by example in its climate ambitions, the EU should strive for a strong, sustainable and resilient Single Market and preserve its global competitiveness, creating an attractive business environment for economic growth.

Introduction

The EU has affirmed its position as a global leader in sustainability by adopting the Green Deal and the European Climate Law, which set an ambitious path forward for the decarbonisation of all sectors of the economy and establish the strategic and political framework to achieve climate neutrality by 2050. The EU has committed to reducing its net GHG emissions by at least 55% by 2030 compared to 1990 levels and is considering adopting a more ambitious climate target trajectory by 2040 to facilitate its net-zero 2050 climate goal.

On 6 February 2024 the European Commission released a communication regarding Europe's climate target for 2040 and its path towards climate neutrality by 2050. The proposal recommends an intermediate target of a 90% reduction in net GHG emissions by 2040. Co-legislators have yet to entrench the 2040 climate target into the European Climate Law, which would make the target legally binding for governments and industries. As a next step, the EU is expected to develop a policy and legal framework for post-2030, which would enable it to more quickly transition to climate neutrality in the next decade.

Industry must be actively involved in the political dialogue leading up to the adoption of the 2040 target to ensure that policies are practical, effective and economically viable. In that vein, this position paper puts forward a set of recommendations to support the Commission in designing the post-2030 climate framework and creating suitable enabling conditions.

Competitive industry

The 2040 climate target requires a significant shift from operational to capital costs, along with accelerated investments in deploying novel low-carbon technologies such as hydrogen production by electrolysis, carbon capture and storage, carbon capture and use, and industrial carbon removals. These transformative steps are necessary to achieve the EU's ambitious climate objectives.

While the proposed 2040 target aligns with the direction of the EU's overarching climate policy, co-legislators must first assess whether the EU can realistically meet its 2030 target using currently available technologies. Industry needs adequate time to adapt to any new reduction targets, ensuring that progress is both achievable and sustainable.

Until alternative technologies are fully proven, widely available and competitively priced, the EU must accept the role of lower-carbon technologies and energy sources such as natural gas and support them with the necessary infrastructure. As highlighted in the Draghi report, achieving ambitious targets such as the 2040 climate neutrality goals requires addressing foundational challenges in technology adoption and infrastructure development. The report advocates for enhancing market conditions for low-carbon products and creating incentives for innovation. Such a pragmatic approach would bridge the gap between current capabilities and future technological solutions.

A stable and predictable political and regulatory environment is equally essential to enable this transformation. The 2040 target must reflect the EU economy’s capacity to adopt and finance these innovations. Without such predictability, industries risk reduced investment, slower innovation and potential job losses, which could ultimately jeopardise the EU’s economic resilience and climate goals.

Moreover, achieving the 2030 climate target should serve as a non-negotiable foundation for reaching net zero by 2050. Implementation remains critical and should be a priority in the upcoming political and legislative term. American companies invested in Europe have already begun transforming their operations and delivering innovative solutions to meet the 2030 climate and energy measures outlined in the Fit for 55 package.

Nevertheless, these companies and the broader industrial sector still face significant obstacles, including the lack of enabling conditions for large-scale emission reductions. For example, hydrogen infrastructure and the grids that connect industrial hubs with ports and storage facilities must be developed on a massive scale by 2030 and made accessible to industries at competitive prices. To facilitate this, the EU must provide incentives to adapt electricity infrastructure, eliminate capacity constraints and boost the production of sustainable fuels for hard-to-abate sectors. This requires a technology-neutral approach across all EU legislation to ensure scalability and innovation.

Finally, the competitiveness of EU industries must remain central to the EU’s climate plans. A strong, well-functioning Single Market, access to clean and affordable energy, secure energy supplies and a fully integrated energy market are essential for driving growth and ensuring sustainable competitiveness as the EU advances toward a net-zero economy.

Clear, predictable regulatory framework

The EU should strive for a strong, resilient and sustainable Single Market, preserve the competitiveness of its industries and maintain and enhance a favourable business and investment environment. In 2023, the Commission presented its Green Deal Industrial Plan with three pillars: a predictable and simplified regulatory environment; faster access to funding; and enhancing workforce skills and open trade for resilient supply chains. The resulting legislation (eg the Net-Zero Industry Act, the Critical Raw Materials Act and the revision of the Block Exemption Regulation) is already in the final stages of the negotiation and adoption process. There is a direct link between meeting the 2030 target, setting the 2040 climate target based on the achievement of the 2030 target and the EU’s Industrial Plan.

The 2040 enabling framework must be clear and predictable, and provide certainty for businesses and investors. The Draghi report's emphasis on streamlined regulatory frameworks and strategic financial investments reinforces the importance of clear, harmonised regulations across the EU. Its findings suggest that without such an environment, the transition risks underperformance in both climate and economic objectives.

In line with these findings, any new regulatory measures must build upon existing ones, and the EU should gradually introduce new regulation – always following the principles of Better Regulation and proper assessment of gaps and existing problems – for the period of 2030 to 2040. These should be harmonised at the EU level and across the Member States’ national frameworks. Industries must be given sufficient time to readjust their business models and manufacture processes and technologies for new regulatory requirements.

Furthermore, the European Commission should consider the conclusions of the recent European Court of Auditors report[1] and update its hydrogen strategy based on robust analyses. To avoid further negative impacts on global competitiveness, the renewable hydrogen targets must be ambitious but realistic, taking into account affordability and competitiveness as well as the role of low-carbon hydrogen.

The transition to a low-carbon economy and climate neutrality by 2050 requires not only changes in business processes and the creation of new technologies but also the transformation of market models and consumer perceptions. The EU should stimulate the development of markets for low-carbon products at both the EU and national levels as well as provide the right incentives to consumers, since market demands are among the drivers of industrial development and innovation.

The more ambitious the target and the shorter the implementation period, the larger the investments required for industries to adapt and comply. Considering the unpredictable and ever-evolving geopolitical environment, the European Commission and other EU decision-makers must prioritise a favourable and appealing business and investment environment. These conditions are essential to restore the EU’s global competitiveness.

Increased investments

The EU’s ambitious climate targets necessitate a significant increase in public and private investments. Simplified procedures and direct access to EU funding tools and mechanisms and fresh financial resources would give industries indispensable support as they decarbonise. According to the Draghi report, the EU’s investment strategies must integrate mechanisms to de-risk and accelerate private sector participation in climate financing. The report highlights the need for robust public-private

[1] https://www.eca.europa.eu/ECAPublications/SR-2024-11/SR-2024-11_EN.pdf

partnerships to catalyse innovation and infrastructure expansion. The EU should ensure that viable, technologically neutral projects and innovative breakthrough technologies that contribute to reducing GHG emissions are eligible for grants and financing under preferential conditions.

A simplified regulatory environment at both the EU and national levels and a strong Single Market for businesses are critical, as is coordination between the EU and Member States to maximise the impact of financing initiatives. As the Commission acknowledged, it should establish in the coming years a European approach to finance, closely coordinating with Member States, the European Investment Bank and financial institutions to ensure a level playing field across the Single Market and synergies between financial rules on funding opportunities.

Cooperation and global action

The Commission initiative and industrial alliances, including the EU Solar PV Alliance and the European Clean Hydrogen Alliance, are pivotal for uniting businesses. The EU should strive to further strengthen these connections to foster opportunities for developing and commercialising breakthrough technologies across the entire value chain. This would promote more innovative, efficient, circular and sustainable products.

On the global level, the EU should make available technology-neutral climate and energy solutions and low-emission and clean energy commodities, which are critical for the transition. While the EU should foster the development of international standards on the global stage and build on its standards as best practices, it should also strive to remove transatlantic barriers to trade in energy and low-carbon technologies and investments as well as facilitate transatlantic cooperation on technology standards and product certification.

Conclusion

The EU's proposed intermediate 2040 climate target should be conditioned on the achievement of the 2030 target. This ambitious target already requires scaling up low-carbon technologies, significant investments, rethinking of business models and an accommodating regulatory approach. The EU must carefully consider and consult with industry partners about adopting an intermediate, legally binding target.

Industry is a driving engine for a sustainable, low-carbon, resilient and competitive EU economy. Businesses are eager to achieve ambitious climate targets, reduce their carbon and environmental footprints and develop innovative technologies. However, they can do so only with a policy framework that ensures a level playing field and improves Europe's competitiveness.