

The EU NDC: a critical moment for climate change policy and the economic future of the EU

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In the coming weeks, ahead of the Belém Conference of the Parties (COP 30), where submission of new and more ambitious NDCs is expected under the UNFCCC multilateral process, the success of the EU in decarbonizing while sustaining its industrial competitiveness will be closely monitored. The world is watching.

With the world's largest economy – the United States – stepping out of the Paris Agreement (and maybe prompting further countries to follow), and the EU industrial base already under severe strain, some of the questions that many observers are asking themselves are: can the EU really do this on its own without being accompanied by major trading partners? Will the EU be able to stay the course? What signal will the EU NDC send to the rest of the world?

With a strong push from voters in the last election, EU policy makers have been broadcasting that these concerns are being heard: the Antwerp Declaration, the Omnibus Package, the Clean Industrial Deal – these are all positive smoke signals and, in some cases, even more. The announced pause in implementation of the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D), the proposed simplification of the Carbon Border Adjustment Mechanism (CBAM): all these signal an understanding and acceptance of the fact that changes are necessary. To be clear, however, these steps are necessary, but not sufficient, changes. A pause is useful, but by itself does not resolve the underlying problem.

Meanwhile, the new EU NDC, promised for the first quarter of 2025 and already delayed, will encapsulate for the world the EU's future stance on climate change in a much-changed world. The unprecedented momentum and exuberance of the period from around 2020 to 2025 has to come face-to-face with the combined realities of an enduring energy crisis, war in Ukraine, retrenchment of a major ally and trading partner, and a rapidly deteriorating industrial landscape in several strategically important sectors. Not to mention inflation and other social and distributional concerns.

It is indeed a high-wire act to balance the political pressure from those who want to stay the course of even further accelerate the energy transition even if that risks losing the last European steel mill or aluminum smelter with the hard reality of those that must make investment decisions for the next decade

– investments that will be critical for meeting the 2050 target. Policy outcomes that lack widespread public support and political durability breed uncertainty; and uncertainty is the natural enemy of bold, long-term investment choices.

There are few options that could be considered. One would be an NDC with a 90% reduction target, offering little flexibility. This would undoubtedly signal virtue to the world. But to EU stakeholders – outside of those who prioritize environmental concerns over all other issues – it will signal that nothing has fundamentally changed. Not a good signal, especially for those that make investment decisions for the next decade.

Another option would be a lower NDC target, say 80%, with a review clause, which is enshrined in the climate law for 2028. This seems like a logical approach but will be likely rejected by those who put environment ahead of the other two dimensions of sustainable development, economic and social sustainability.

Finally, there is the option of a 90% NDC, but one that is accompanied by flexibility clauses. Such clauses could include a rule that, under certain conditions, use of international credits could be allowed for a percentage of the NDC (say up to a limit of 7-8%). Other flexibility clauses have been floated, such as potentially backloading ambition. This idea could be turned around, with the end year moved beyond 2040 while keeping the 90% target. Alternatively, one could add a certain percentage to the NDC based on a basket of triggers to be achieved by 2035, such as sufficient climate action by G20 countries, a minimum economy-wide cost of carbon applied in other countries, etc.

In the end, what is needed is an NDC that recognizes the need for climate action, which relies on a price to drive decarbonization, and where the cost of compliance cannot lead to deindustrialization.

An NDC that is both realistic and that can be achieved without undermining societal expectations. An NDC whose focus would be less on annual emissions and more on the concentration of greenhouse gas emissions in the atmosphere, allowing controlled inclusion of technology and nature-based removals, both domestic and international. An NDC that recognizes the limited EU share of global emissions, and the disproportionate cost of eliminating the last residual fraction of emissions relative to substantially more cost-effective options.

Ultimately, we cannot deny that we are at crucial juncture – both for the future of EU climate policy and the clarity it provides to the European economy, as well as for international climate policy and multilateral diplomacy in an increasingly competitive and adversarial world.