

ERCST Feedback to the EU Commission public Consultation on the 2040 Target

Watch the recording of a discussion on the 2040 Target with three major economists:

<https://youtu.be/0t9P2iyE47w>

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In considering what the EU target for 2040 should be, what is needed is a disciplined and hard approach to reviewing, and implementing corrections to adapt the existing framework to the changed global socio-economic realities. This is an important moment for the EU and the world, and ERCST, and its staff, are fully and deeply committed to reach the goals of the Paris Agreement of climate neutrality by the second half of the century and hold the increase in the global average temperature to well below 2°C, while pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels¹.

On July 2nd, 2025, the European Commission put forward two documents whose provisions are briefly outlined below. One is the [Communication on the Delivery of Clean Industrial Deal I](#)². The European Commission also presented its [proposal](#)³ for a 2040 climate target establishing a 90% reduction in GHG emissions. This proposal amends [Regulation 2021/1119](#)⁴, known as the European Climate Law. The Commission reaffirms its recommended target of a 90% GHG emission reduction compared to 1990 levels by 2040, consistent with the [Communication on the Union's climate target for 2040](#)⁵ and its related Impact Assessments published in February 2024.

These documents are stimulating and providing stakeholders with the much-needed starting point for discussion and contain many provisions that are clearly going in the right direction. The tone of these documents suggests a change in perception of the EU realities, its problems, and what is to be done.

At the onset, one remark which is important is that this transition needs to be sustainable, but there are significant sections of stakeholders that would like the environmental dimension to dominate. This cannot lead to a prosperous and sustainable Europe, even if it is done with good intentions – and will lead to a false victory, or worse, to a rejection of the whole effort.

As we have repeatedly stated, the objective is to decarbonize, not to deindustrialize. Advocating the abandonment of large swaths of European industry cannot be a reality, as it, in our view, clashes with the

¹ United Nations Framework Convention on Climate Change. (2015). Paris Agreement. Retrieved from https://unfccc.int/sites/default/files/english_paris_agreement.pdf

² European Commission. (2025). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Delivering the Clean Industrial Deal I.

³ European Commission. (2025). Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) 2021/1119 establishing the framework for achieving climate neutrality. Retrieved from https://climate.ec.europa.eu/document/download/e1b5a957-c6b9-4cb2-a247-bd28bf675db6_en

⁴ European Parliament and Council of the European Union. (2021). Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'). *Official Journal of the European Union*, L 243, 1–17. Retrieved from <https://eur-lex.europa.eu/eli/reg/2021/1119/oj/eng>

⁵ European Commission. (2024). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Securing our future: Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society. Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52024DC0063>

real world. While the climate change issue needs to be addressed urgently, the urgency of addressing the EU economic problems also cannot also be minimized.

It is quite clear that the 90% proposal has the support of the EU Commission as well as the support of the European Scientific Advisory Board on Climate Change. Civil society, including business, is split on some aspects of the proposal, including the headline target and flexibility aspects. Such a decision needs to be carefully considered given its ramifications, and while informed by environmental and economic research, it must remain squarely a political decision.

A few remarks about the current proposal:

- There seems to be a discrepancy between the general political language and some provisions that seem immovable. The proposal appropriately emphasizes the importance of flexibility, technology neutrality (a term notably absent from the previous iteration of the Climate Law), and cost-effectiveness in achieving climate targets. However, for illustration purposes, the commitment to these principles appears inconsistent with the proposed restriction limiting CDR use to residual emissions from hard-to-abate sectors alone. Restricting CDR applications to specific economic sectors lacks economic justification. Conversely, allowing CDR credits to offset emissions from any source enables market forces to identify the most cost-effective compliance pathways across the entire covered economy. This approach avoids market distortions arising when regulators attempt to predetermine winners and losers. We must have the courage to match political rhetoric with hard provisions.
- The introduction of a flexibility. The use of international credits is foreseen, in a limited amount, starting in 2036. Clearly a welcomed development, and to be fair, with much yet to be determined. But 3% in a 90% target seems awfully little and late and it is unlikely to make a difference for an industrial EU that is, in the present, facing an existential crisis – and that is not a hyperbole, and it needs to be said. It is unclear what the flexibility really means, and how it will benefit those that are called to transform while complying with an increasing financial burden in the EU ETS. The text is quite clear with little interpretation possible: these credits are not meant for use in EU ETS, and therefore any benefit to the ETS covered sectors will be indirect and a second-degree effect.
- International landscape. In fixating on the 2040 target of 90%, a long list of matters that were considered is put forward, including the international situation and the result of the Global Stocktake under the Paris Agreement. There must be more justification to this statement, when the largest economy is withdrawing from the Paris Agreement, and the rest of the world is nowhere near what the EU is doing in the terms of level of effort and cost, to industry, and to society at large through changes in consumption vs investment. We all stand behind the “common but differentiated responsibility principle”, and it must be clear that this issue is raised in the context of EU’s main economic competitors and not developing countries.
- There is a general reference to the development of a post 2030 policy architecture, which will follow the setting of a 2040 target. This is something that must happen, as many pieces of legislation will need to be adapted to the new 2040 target. However, it is unclear what this means, and whether it refers to rebalancing existing instruments, redefining roles or the introduction of new instruments. Demand for low carbon products and the need for product standards in the EU seems inevitable, but does not seem

to be on the menu, except through indirect references. This will have to be part of the new architecture, and the sooner we examine it, the better we are – and not only inside the EU.

- Impact assessments are often pointed to in these documents. There is however one aspect that is not mentioned, that of impacts outside the EU. This is rapidly becoming a major issue in international negotiations, both under UNFCCC as well as WTO, and is likely to need a multilateral solution. This needs to be factored in making decisions, as it may affect key instruments such as CBAM.
- CBAM, which is becoming an EU reality that the rest of the world is waking up to, has provisions that still need to be determined in order make it effective. Its efficiency has been improved through the Omnibus Bill.
 - A formal legislative proposal is expected by the end of 2025, together with proposals on downstream extension and anti-circumvention measures A communication on export treatment under the CBAM [Regulation \(EU\) 2023/956](#)⁶ was also included in the [Communication on Delivering the Clean Industrial Deal I](#)⁷.
 - The funds for compensation are to come from CBAM revenues. ERCST, in the paper entitled “The Use of CBAM Revenues” strongly argued, supported by a letter signed by 29 EU think tanks⁸, that the majority of CBAM funds should be used to support exporters in countries most affected by CBAM and least able to adapt, helping them decarbonize. We continue to support that argument as being the right use for CBAM funds. If financial compensation is to be the solution, even if ERCST argues for a different solution,⁹ then funds should be used from EU ETS auction revenues.
 - To ensure compatibility with WTO rules, the solution aims to guarantee equal treatment for CBAM-covered goods, regardless of whether they are sold within the EU, exported, or imported. This shows a notable shift in tone, as earlier discussions expressed concerns regarding WTO compatibility of any measure conditioned on exports.
 - This scheme would be implemented for an initially defined period, with a review in 2027. Although this long-awaited solution for exports has finally been introduced, it remains vague and raises numerous questions—particularly around the criteria defining the scheme's scope, the methodology for calculating compensation, and the eligibility of decarbonization plans already approved under the EU ETS.
- The Clean Industrial Deal State Aid Framework (CISAF) represents a positive step forward in terms of financing instruments. It includes provisions for various aid measures, such as:
 - Support for accelerating the deployment of renewable energy.
 - Aid to facilitate industrial decarbonisation.
 - Measures to ensure sufficient clean technology manufacturing capacity.
 - Tools to de-risk private investment.

⁶ European Parliament and Council of the European Union. (2023). Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism. Official Journal of the European Union, L 130, 52-116. Retrieved from <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023R0956>

⁷ European Commission. (2025). Delivering on the Clean Industrial Deal I (COM(2025) 378 final). Retrieved from: https://commission.europa.eu/document/download/ae2ea9ea-d037-4920-bbf6a4183b747e34_en?filename=COM_2025_378_1_EN_ACT_part1_v5.pdf

⁸ ERCST. (2024). *Declaration: Calling on the EU to direct revenues from the CBAM towards international climate finance*. Accessible [here](#).

⁹ Marcu, A., et al. (2024). *The Use of CBAM Revenues*. Brussels: ERCST. Accessible [here](#).

This is all good and encouraging. The EU as leader in decarbonization will require support for industry, for power decarbonization and for ensuring continuing social coherence. But what is not at all clear is where the money will come from, with EU member states finances in difficulty and with significant amounts that urgently need to be spent on defense. Governmental crisis in several EU members states is a clear symptom that the macroeconomic situation shows great difficulties in many countries. These are realities that also need to be part of considerations.

So, what shall we do?

ERCST views the following possible courses of action:

1. **Stick with the current headline target, with current provisions – added flexibility.** Given the target, politically it would keep the EU as a leader in decarbonization and help in international discussions at COP30 and beyond. From an environmental point of view, it also provides a boost to global decarbonization. But it is clearly front-loading the effort. It is unclear that this proposal can carry the day politically in the EU, and a divided EU on this is also a consideration. What is also important, achieving this target is heavily dependent on several assumptions and KPIs that need to be achieved, which is not a given. One assumption is that financial resources will be available, at a time when the EU economy is in difficulty and not achieving the Lisbon mandate on competitiveness. It is also dependent on legislative and regulatory changes that are not in place and that have not undergone an Impact Assessment. Significant changes, some of them controversial, will need to be considered for EU instruments such as the ETS and CBAM. In addition, mandates to ensure demand for low carbon products emerges needs to be seen as a must, but with social implications – someone must pay the bill, and it will be the consumer. This may also imply financial support for vulnerable industries and consumers. It is also dependent heavily on the EU hitting a number of KPIs, including levels of electrification (at around 50%), uptake of low carbon fuels in the maritime sector (GHG intensity target -31% in 2040), aviation sector (reliance on sustainable aviation fuels (SAF) around 34% in 2040), carbon removals (at least 400 MtCO₂e/year by 2040), penetration of EVs, and other low carbon technologies, level of effort by other countries, etc. Agriculture, at about 12% of EU emissions, will also need to be addressed, but it will also be a socially difficult area. Reaching these KPIs is possible, but it is currently just an assumption that will need to be tested, and current trends and investments are not going in the right direction. Given the situation, as described above, this course of action creates a significant risk to the sustainability of the transition. It would then become imperative that the flexibility provided is increased significantly: 10% international credits starting in 2032, with CDRs, including international CDR, included.
2. **A headline target as range, with a review clause.** The Climate Law also requires a review aligned with the Paris Agreement-mandated Global Stocktake, with the next one scheduled for 2028. While offering leadership is important, it cannot be seen as an open-ended commitment. Providing leadership requires significant financial resources to ensure that the economic and social impacts result in a sustainable transition, unless there is close following by important trading partners, which is simply not happening at this time. One of the key parameters is the degree to which EU's effort aligns with the other NDCs and, as such, 2028 is a good moment for a review. Given the important necessary conditions outlined above, including some very clear KPIs that need to be achieved, one

potential way forward would be to provide an 80-90% target range for 2040, to be finalized during the 2028 review, based on set of well-defined KPIs.

In addition, a range of 5-10 % international credits starting in 2032 should be considered that will also include international Carbon Dioxide Removal (CDR). This will allow for a review with a legislative proposal to finalize the headline target.

One can argue that such a solution will provide less certainty for those that have to implement it - but there is never certainty in anything we do. What is required, and can be expected, is regulatory predictability and a clear process and parameters to guide decisions.

In addition, there is a EU precedent for such approach in the EU “conditional offer” at the Copenhagen¹⁰ and Doha COPs: *“In addition to its unilateral 20% reduction commitment, the EU stands by its conditional offer as reiterated by the European Council in December 2009 to move to a 30% reduction by 2020 compared to 1990 levels, as part of a global and comprehensive agreement for the period beyond 2012, provided that other developed countries commit themselves to comparable emission reductions and developing countries contribute adequately according to their responsibilities and respective capabilities”* (Submission by Denmark and the European Commission on behalf of the European Union and its Member State, Copenhagen April 19, 2012). Given the current geopolitical circumstances, it is important to also note that the submission quoted above also included a paragraph on the commitment of EU candidate countries to fulfil commitments jointly with the EU¹¹.

¹⁰ Available at: <https://unfccc.int/process/conferences/pastconferences/copenhagen-climate-change-conference-december-2009/statements-and-resources/appendix-i-quantified-economy-wide-emissions-targets-for-2020>

¹¹ Available at: https://unfccc.int/files/meetings/ad_hoc_working_groups/kp/application/pdf/awgkp_eu_19042012.pdf?utm_source