

ERCST Reflection Note

2040 Climate Target – ERCST's Reaction to recent developments

Authors

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1. Introduction

The European Climate Law enshrines the objective of achieving climate neutrality by 2050 as a legally binding commitment for all EU Member States. It also sets a binding requirement for the EU to cut net greenhouse gas emissions by a minimum of 55% by 2030 relative to 1990 levels. Article 4(3) of the EU Climate Law calls on the Commission to make a legislative proposal, as appropriate, for a Union-wide 2040 climate target within 6 months of the global stocktake referred to in Article 14 of the Paris Agreement.

On July 2, 2025, the European Commission presented its proposal for a 2040 climate target. The proposed target is a 90% net reduction in GHG emissions (vs 1990), backed by scientific advice (notably the ESABCC), impact assessment, and the carbon budget analysis. On 5 November, the Council adopted its negotiating position, while the European Parliament voted on its position during the Plenary session on 13 November.

The first trilogue was held on 9 December 2025. During this trilogue, negotiators from the European Parliament and the Council reached a provisional political agreement on the 2040 climate target. Their provisional agreement reiterates the 90% net reduction in GHG emissions compared to 1990 levels as proposed by the EU Commission and strengthens the flexibilities options to achieve the target.

2. Key points

International Credits

- Starting from 2036, up to 5 percentage points of the emissions reductions can be covered by high-quality international credits compatible with Article 6 of the Paris Agreement. The exact amount of what 5% is translated into is unclear, ranging from 150 Mt to 750 Mt. This corresponds to a domestic reduction of net greenhouse gas emissions by 85% compared to 1990 levels by 2040. Following pressure from the EU Parliament, the text now includes additional safeguards for international carbon credits, such as prohibiting support for projects in partner countries that conflict with the EU's strategic interests. This is a nod towards the past experience of massive CDM projects in China that directed flows of carbon finance to EU industrial competitors.
- Additionally, the Commission will examine various options for how international credits could fit into future EU climate legislation aimed at achieving the 2040 target – this can mean almost anything, from no international credits in the EU ETS to the creation of a buffer to procure international credits from the market (a possible solution given the quantity limitation of 5%).
- The provision to not allow international credits in EU ETS does not seem to be part of the agreement, but there is language that aims to re-assure those that have concerns related to their use in the EU ETS which refers to the need to ensure the stability of the EU ETS. It seems like a compromise, but we will need to see the precise final language.

EU ETS2

- The EU's ETS2, which will also cover CO2 emissions from fuel combustion in buildings and road transport, will be pushed back by one year, shifting its start date from 2027 to 2028. This a strong signal of concern of the social impact and response of the impact of ETS2 at a time when the EU economy is under stress and additional costs by households will not be welcome, including given the EU member states upcoming electoral calendar: France (April 2027), Poland (November 2027), and Germany (2029).

Carbon removals

- The agreement allows for the use of domestic permanent carbon removals to offset hard-to-abate emissions within the ETS and introduces greater flexibility both within and across sectors and policy tools to ensure targets can be met in the most cost-efficient way.
- The inclusion of permanent carbon removals within the EU ETS represents a positive development. Nonetheless, restricting their application exclusively to hard-to-abate emissions imposes an arbitrary hierarchy. Limiting CDR methodologies to a predetermined 'hard-to-abate' category is inconsistent with a technology-neutral and economically efficient approach.
- Also, it is important to note that domestic CDRs are the focus, which we hope represents a first step. Ultimately, the need for international CDRs will be inevitable, as reflected in the rationale behind the creation of Article 6 in the Paris Agreement.

2040 Target review

- According to e provisional compromise, the Commission shall undertake a biennial assessment of progress, taking into consideration the most up-to-date scientific evidence, technological advancements, and the Union's international competitiveness. This is pretty open-ended and can open a door for serious reviews if there is political will. Interestingly enough, there is no language on consideration of the level of international ambition, especially with important trading partners, but that can be considered as understood in the language used.
- The review will evaluate the level of net removals achieved across the Union in comparison with the volumes required to attain the 2040 target. It will also examine emerging implementation challenges and the scope for strengthening the competitiveness of the EU industrial base. Furthermore, it will analyze developments in energy prices and their implications for enterprises and households.
- On the basis of the conclusions drawn from the review, the Commission may, where appropriate, propose an amendment to the EU Climate Law. Such a proposal may entail an adjustment of the 2040 target or the introduction of supplementary measures to reinforce the supporting framework, including those designed to safeguard the Union's competitiveness, prosperity, and social stability.

6. Next Steps

The European Parliament will proceed to vote on the provisional agreement, and the Council must also endorse it. Once both institutions approve the final text the act will enter into force 20 days after its publication in the Official Journal of the European Union.