

EU climate change policy – What is to be done?

To reinterpret the message in the well-known 1902 political pamphlet “What is to be done?”¹ in the context of the current discussion on EU climate change policy would be to argue that general political statements will not do the job, 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 as well as aspects that simply need correction. General political statements will need to be checked against the hard reality of what the actual implementation text says.

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 provide 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.

We are happy to provide initial overall remarks which we will elaborate further as we engage in the policy debate. However, it is important to note that there are significant sections of stakeholders that simply do not wish to recognize the need for the transition to be sustainable and would like the environmental dimension to dominate, regardless of the consequences for the economic and social consequences. This cannot lead to a prosperous and sustainable Europe, even if it done with good intentions.

As we have repeatedly stated, the objective is to decarbonize, not to deindustrialize. Advocating, even on the best economic theory, the abandonment of large swaths of European industry may be an intellectually

¹ Lenin, V. I. (1902). *What is to be done? Burning questions of our movement*.

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>

stimulating discussion, but one that clashes with the real world. We should better recognize the decisions that have led Europe in this situation and address them.

- It is quite clear that the 90% proposal has the support in the Commission as well as the support of the European Scientific Advisory Board on Climate Change. There are however signs of some discussion in the Council, with some Member States still seemingly unconvinced of this new commitment as well as wanting to separate the 2040 EU target from the NDC that the EU will present leading to COP 30. Civil society is supportive, while expressing opposition to some of the proposed flexibilities, while the business community has expressed concerns.
- There seems to be discrepancy between general political language, which goes in the right direction, and some of 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 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 to yet be determined. But 3% in a 90% target seems awfully little and late and is unlikely to make a difference for an industrial EU that is 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. 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. Some of these provisions in the 2040 document should make the object of a vigorous debate in the coming months as not well-defined terminology will provide little relief.
- 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 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. The need for product standards in the EU seems inevitable but does not seem to be on the menu, except through indirect references. This may need 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 to 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.
 - To address export carbon leakage, the proposed approach involves using CBAM revenues to compensate EU exporters of selected CBAM-covered goods. Compensation will be proportional to the phase-out of free allowances, subject to deliverables on long-term decarbonization. As financial compensation, this proposed scheme will need clarity on how to determine the monetary value of EU allowances (EUAs) for converting purchased allowances into cash compensation, which may introduce arbitrariness and risk overcompensation. In our view, non-monetary rebate options are administratively simpler and help avoid overcompensation risks, as they bypass the complexities of pricing EUAs and can be structured to remain within the emissions cap^{8,9}.
 - The funds from 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 tanks¹⁰, 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 solution¹¹ 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

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 A, Marcu, et al. (2025). *Solutions for exports of EU CBAM-covered goods*, accessible [here](#).

⁹ A, Marcu, et al. (2022). *Treatment of exports in the EU CBAM*, accessible [here](#).

¹⁰ ERCST. (2024). *Declaration: Calling on the EU to direct revenues from the CBAM towards international climate finance*. Accessible [here](#).

¹¹ Marcu, A., et al. (2024). *The Use of CBAM Revenues*. Brussels: ERCST. Accessible [here](#).

- 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.
- There seems to be no end to the provisions for decarbonization plans that are requested under EU legislation – in this case there is on specific cases for free allocation, and now, for CBAM sectors, another such requirement. This conditionality seems to be yet another control on the market behavior of enterprises - more below.
 - Financing instruments. The Clean Industrial Deal State Aid Framework (CISAF) represents a positive step forward. 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.

Nonetheless, greater clarity is required to ensure coherence and avoid overlapping with existing funding mechanisms.

- Implications on Mobility. The amendment to [Regulation \(EU\) 2019/631](#)¹² mentioned in the Communication, which provides the automotive sector with flexibility in meeting the 2025 CO₂ fleet emissions targets. In practice, this amendment shifts from requiring car manufacturers to meet annual CO₂ fleet targets for each year (2025, 2026, and 2027) separately to assessing compliance based on average emissions over the three-year period. This change allows manufacturers to offset higher emissions in one year by achieving lower emissions in another, provided the average over 2025–2027 meets the targets. However, the fundamental problem remains unaddressed: the penalties for non-compliance are set at levels that severely impact the competitiveness of the EU automotive industry. The unchanged penalty structure remains the contentious issue, as it could undermine the sector's global competitiveness and investment capacity. This continued reliance on punitive financial penalties as the primary enforcement mechanism reflects a lack of innovative policy thinking, which does little to support the transition to more sustainable mobility.
- Finally, there is nowhere a reference to a problem that in our view is fundamental. The over regulation, over reporting and over control of the EU economy has created a culture that cannot be entrepreneurial and innovative. And it's not. Entrepreneurship and innovative thinking cannot be legislated and cannot be done pushed/pulled through central planning. The layers of regulation, reporting and control, well intentioned as they may be, and for a good cause, will not lead to entrepreneurship and innovation. All this discussion must be also seen in this light. But this would require a rethinking of a deeper model.

¹² European Parliament and Council of the European Union. (2019). Regulation (EU) 2019/631 of the European Parliament and of the Council of 17 April 2019 setting CO₂ emission performance standards for new passenger cars and for new light commercial vehicles, and repealing Regulations (EC) No 443/2009 and (EU) No 510/2011 (recast). Official Journal of the European Union, L 111, 13-53. Retrieved from <https://eur-lex.europa.eu/eli/reg/2019/631/oj/eng>