EU 2040 Climate Target: IFIEC asks for a Realistic Route to 2050 Net-Zero without Deindustrialization

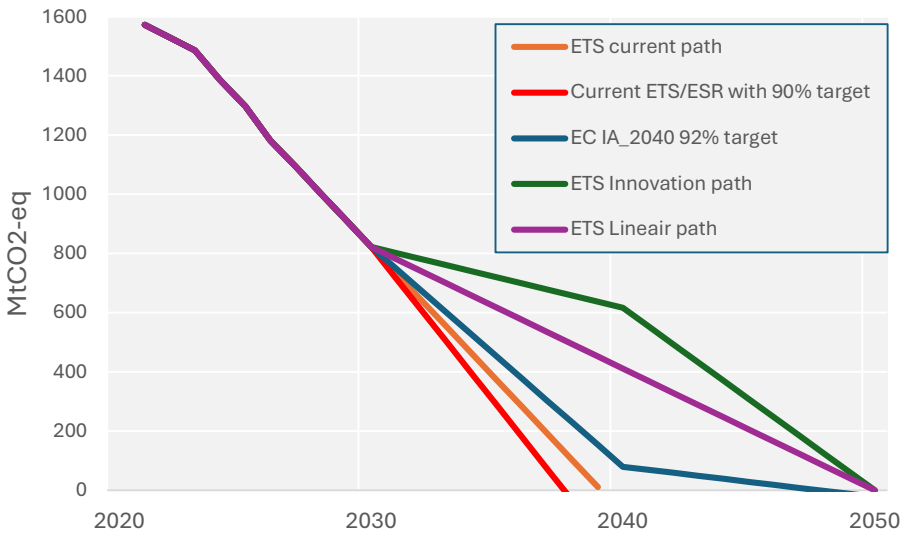
The context: EC proposed a 90% climate target for 2040

With the adoption of the European Climate Law in 2021, the EU's objective to reach net-zero greenhouse gas emissions by 2050 became legally binding. As part of this framework, the European Commission is also required to set a legally binding climate target for 2040. The previous Commission proposed a 90% emissions reduction target by 2040 which is confirmed in the recently published Clean industrial deal. As the Draghi report and the Competitiveness Compass highlight, decarbonisation policies are a powerful driver of growth when they are well integrated with industrial, competition, economic and trade policies. However this 90% target poses a significant threat for industry across the whole of Europe as it directly impacts the ETS target.

Innovation trajectory

Industrial processes need transformational innovation to reduce greenhouse gas emissions from combustion and processes. This requires large-scale investments in low-carbon energy production (including in infrastructure), and low-carbon technologies like hydrogen, CCUS, and recycling. While promising technologies are being developed, they follow the typical innovation curve meaning their large-scale implementation is often expected at a later stage. The ETS cap should reflect this innovation curve (see " innovation path" figure 1[1]).

Figure 1: Different trajectories towards climate neutrality for ETS



Impact 90% target by 2040 on ETS

An overall 90% target needs to translated in a ETS and non-ETS target. According to the EC's 2040 impact assessment, the ETS emissions cap under the proposed 92% Climate target, reaches nearly zero in 2040, in fact completely opposing the innovation curve. Moreover, if the current effort sharing is applied to the 90% target the ETS allowances reach zero in 2038. This would mean that no emissions are allowed, effectively eliminating industrial activity within the

[1] Pathways are based on EC 2040 impact assessment combined with own calculations. The innovation pathway is an illustrative pathway reflecting first a lower uptake of low carbon technologies and a lower GHG reduction rate followed by a large scale implementation and higher GHG emissions reductions reduction rate.

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ETS-covered sectors. In order to allow industry to make the transition by 2050, an adjustment of the LRF post-2030 is necessary otherwise emissions would also go to zero by 2039.

A 2040 overall climate target must also be set in line with the innovation curve and economic reality. Although the post-2030 ETS framework will be reviewed in 2026, the 2040 climate target of a 90% emissions reduction already places a significant and catastrophic constraint on this reform. Such an ambitious target leaves no room for gradual investment uptake and will lead to further de-industrialization.

Conclusion

IFIEC supports the goal of climate neutrality by 2050, but advocates for a realistic trajectory towards 2050, aligned with the typical innovation curve, accounting for adoption and diffusion of new technologies and economic reality. Alternatively, a linear trajectory between 2030 and 2050 could be considered. **However, the accelerated action curve in line with the 90% reduction proposal by 2040 further accelerates the exit of the industry out of Europe, leading to massive job losses and economic decline**. Given the risk to ETS and the impact on society, we do not support this 90% target. Any target must include a competitiveness safeguard, based on a clear sector-specific impact assessment.

More information?

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