POLICY BRIEFING

IMPLEMENTING A 2040 CLIMATE TARGET FOR A COMPETITIVE AND JUST EUROPEAN GREEN DEAL

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for the European Union. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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ABOUT THIS BRIEFING

The European Green Deal set the target to make Europe the first climate-neutral continent by 2050, by building resilience against increasing climate impacts, improving energy security, and transitioning to a competitive, resource-friendly and equitable net zero economy, that creates opportunities for citizens.

The EU Climate Law (Regulation 2021/1119) made the climate neutrality objective legally binding for 2050, and specified an interim target of -55% emission reductions by 2030 for the European Union. It also requires setting a science-based climate target for 2040. On 6 February 2024, the European Commission proposed a -90% emission reduction target by 2040 based on its impact assessment.

This brief summarises the **PRI's recommendations for an EU 2040 climate target** to ensure a strong policy framework, planning for energy security, and accelerated finance for the transition.

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IMPLEMENTING A 2040 CLIMATE TARGET FOR THE EUROPEAN GREEN DEAL

The European Green Deal set the target to make Europe the first climate-neutral continent by 2050, and to build resilience against increasing climate impacts, improve energy security, and transition to a competitive, resource-friendly and equitable net zero economy that creates opportunities for citizens.

The EU Climate Law (Regulation 2021/1119) made the climate neutrality objective legally binding for 2050, in line with the Paris Agreement, and specified an interim target of -55% emission reductions by 2030. It also requires setting a science-based climate target for 2040. On 6 February 2024, the Commission proposed a -90% emission reduction target by 2040 based on its impact assessment.

This brief summarises **PRI recommendations for an EU 2040 climate target** to ensure a strong policy framework, planning for energy security, and accelerated finance for the transition.

KEY RECOMMENDATIONS

1) Set a science-based climate target and EU transition pathways for 2040

- Set a legally binding climate target of **at least -90% GHG emissions** reductions by 2040.
- Provide EU-wide **sectoral roadmaps** to clarify transition needs and priorities.
- Include **investment needs, plans and related data** in national climate and energy plans.

2) Swiftly implement the Fit for 55 package and make it ready for 2040

- Strengthen **carbon pricing** to boost innovation and a just transition.
- Implement policies that **reduce demand** for energy and raw materials.
- **Accelerate electrification** by increasing deployment of renewable energies and expanding transmission infrastructure.
- Enhance **nature-based solutions** for mitigation and biodiversity co-benefits.

3) Create an enabling environment for transition finance

- Provide transparency for post-2026 **climate-related EU funding.**
- Mobilise **private sector investments** through de-risking instruments, financial incentives, and increasing availability of bankable green projects.
- Leverage **public funding instruments** to simplify access to pooled resources and tailored financial instruments for transition investments.

4) Empower stakeholders to co-create a just transition

- Foster **public support** and engagement for a just and fair transition.
- Strengthen **stakeholder collaboration** for climate and social policies.

IMPLEMENTING 2040 CLIMATE TARGETS NEEDS TRANSITION POLICY, INVESTMENT, AND COLLABORATION

Europe is heating up faster than the rest of the world. In 2022, the EU region was more than 2°C above the pre-industrial average, exacerbating heat waves, droughts and wildfires, floods, storms, and unprecedented glacial melting. Since 1980, climate-related events have caused 220,000 deaths and €650 billion in economic damages in the EU, of which €150 billion were in the last five years alone. Opting for a pathway that exacerbates global warming between 2031 and 2050, could cost the European Union €2.4 trillion in additional GDP compared to adhering to the Paris Agreement's 1.5°C objective.

By putting the European Green Deal into law – **specifying a climate target for 2030 and creating an enabling policy framework with the Fit for 55 package** – the European Union has set the path towards climate neutrality in 2050. Emission reductions, if implemented as planned in the EU Emission Trading System (ETS), could reach -88% emission reductions by 2040. However, according to the European Advisory Board for Climate Change (ESABCC), the average rate of emission reductions since 2005 must accelerate more than tenfold to be consistent with the 2030 target trajectory, while shaping a globally competitive, sustainable economy and a prosperous and fair society that delivers for all EU citizens.

In February, the Commission proposed a **climate target of -90% emissions reduction for 2040,** at the lower end of the ESABCC's recommendations of 90 to 95% reductions. This remains consistent with the EU's Climate Law obligations – i.e. emissions reduction of -55% by 2030 compared to 1990 levels and climate neutrality by 2050 with negative emissions thereafter. The proposal is based on an impact assessment detailing the EU's required energy system changes for net zero emissions, trajectories for phasing out fossil fuels, energy and material demand reductions, carbon capture and storage needs, and an investment agenda to attract private capital for the transition.

The EU urgently needs to address the remaining funding gap for the transition. **An additional €620 billion is required each year until 2030 to achieve the Green Deal objectives.** Annual investment needs for energy and transport will grow to €1.5 trillion from 2031 to 2050. While the EU needs to upscale its public climate expenditures, most investments will have to come from financial markets. Bridging this funding gap requires mobilising private finance while increasing investment opportunities in net zero infrastructures and technologies.

Investments at this scale require policy predictability and public support for de-risking on a long-term planning horizon. To attract this capital and de-risk the investment decisions, investors need to be able to rely on mandatory climate targets and have more detailed information relating to technologies, processes, investment needs and resource allocation, and timelines. It will also require consistent policy incentives that price in negative externalities and/or stimulates positive outcomes. Robust 2040 climate targets need to be backed by both EU and national transition plans, including strong policy and pricing signals.

An EU wide, whole-of-economy transition plan is key to align short-, mid- and long-term targets (for 2030, 2040 and 2050, respectively). The Commission and Member States need to clarify priority sectors and decarbonisation pathways, private investment needs, public resources allocated, and available financial instruments. This will help make the EU an attractive global investment destination and ensure a just and timely implementation of the European Green Deal. More detailed policy priorities for financing the European Green Deal can be found in PRI's 2030 EU Policy Roadmap.

1. SET A SCIENCE-BASED CLIMATE TARGET AND TRANSITION PATHWAYS FOR 2040

Companies, investors, and financial institutions need **planning security to mobilise net zero investments.** From this perspective, setting -90% climate target for 2040 is a welcome step, if enshrined in law and supported by detailed sectoral roadmaps. These roadmaps should provide clear decarbonisation timelines and milestones and encourage EU-wide adoption of effective and comprehensive National Energy and Climate Plans (NECPs), which will complement the target with necessary policy signals for investors.

Set a legally binding climate target of at least 90% GHG emissions reduction by 2040.

A reduction of more than 90% remains feasible and aligns both with the EU's Climate Law obligations – i.e. emissions reduction of -55% by 2030 compared to 1990 levels and climate neutrality by 2050 with negative emissions thereafter – and its international commitment under the Paris Agreement to limit global temperature rise to well below 2 °C and aiming for 1.5 °C.

Therefore, we recommend the Commission to:

- **Issue a legislative proposal to set the 2040 climate target into law as soon as possible.** The PRI supports setting separate targets for emissions reduction and carbon removals to ensure transparency. The net emissions reduction target for 2040 should be submitted as the EU's National Determined Contributions (NDC) by 2025 in line with the Paris Agreement requirements.
- **Assess the consistency of any new legislative proposals with the EU Green Deal objectives,** as mandated by the Climate Law. The ESABCC recommendations should guide these consistency assessments, which should apply to all delegated and implementing acts under the Fit for 55 package and the EU Green Deal, as well as climate-relevant state aid decisions and communications.

Provide EU-wide sectoral roadmaps to clarify transition needs and priorities.

As a next step, the Commission will need to set out how the 2040 emissions reduction target can be reached, and what milestones need to be checked and monitored to track progress on this transition pathway, following Article 10 of the Climate Law.

We recommend the Commission to:

- **Provide sectoral decarbonisation roadmaps** in close collaboration with the private sector that align with the EU 2040 climate target. These roadmaps should provide coherent and reliable EU decarbonisation pathways with specified timelines and milestones for different industries to guide transition planning, based on ESABCC recommendations.
- **Assess policy coherence and potential trade-offs** between climate, energy, nature, and social objectives within the European Green Deal. Sectoral roadmaps should include effective demand-side reduction measures for energy and materials, as well as options for nature-based climate solutions. Fit for 55 policies need to be implemented, monitored, and revised as necessary to align with 2040 targets.

Include investment needs, plans and related data in national energy and climate plans.

Following an assessment by the Commission, Member States' NECPs need to be updated and the final version are to be submitted by June 2024. As outlined in the EU Governance of the Energy Union and Climate Action, these 10-year NECPs (2021-2030) should simplify and streamline planning, reporting, and monitoring obligations for climate and energy policy implementation. They should clarify and complement Member States' 30-year Long-Term Strategies (LTS) 2021-2050.

NECPs help compare transition planning between Member States but can be made more decision-useful for policy makers, companies, investors, and civil society. These plans should align with Member States' LTS, as mandated in the Governance Regulation. So far, there is no mandatory process or common template for regular LTS revisions.

We recommend the Commission to:

- **Align the process for regular and timely NECP and LTS revisions.** Regular LTS revisions should be made mandatory in line with NECPs. They should include reporting templates and specify climate neutrality, fossil fuel phase-out targets, timelines, and costs. Reporting timelines for NECPs should be synchronised with the Paris Agreement's regular five-year stocktake.
- **Clarify and, if necessary, enforce NECP reporting requirements and methodologies.** NECPs should include expected costs and impacts of national mitigation measures, as well as public resources allocated for the transition. Member States should receive necessary support and technical assistance to ensure timely submission.
- **Make NECPs fit-for-purpose for investors** by providing planned decarbonisation measures and required investments specifying if these are to be covered by public or private sources. For long-term investment planning, NECPs should include costs of implementing climate policies, their expected impact, and resource allocation for different economic sectors and activities.

2. SWIFTLY IMPLEMENT THE FIT FOR 55 PACKAGE AND MAKE IT READY FOR 2040

With the majority of the Fit for 55 package adopted, the Commission, as the guardian of the European Climate Law, now has two complementary responsibilities. First, it needs to ensure swift, effective, and reliable implementation of policies supporting the achievement of 2030 targets by each Member States. Secondly, it needs to adapt Fit for 55 measures to align with the new 2040 climate targets. If implemented as planned, these policies will create more demand for net zero investments until 2030, while setting the baseline to achieve the 2040 climate target.

Thus, policy makers should:

(i) set the right decarbonisation incentives by strengthening carbon pricing;
(ii) develop mechanisms to reduce demand for energy and raw materials;
(iii) accelerate electrification with no-regret renewable energies; and
(iv) focus on nature-based solutions for combined climate mitigation and biodiversity restoration benefits.

The Commission should support Member States as necessary to ensure swift implementation of Fit for 55 policies.

Strengthen carbon pricing to boost innovation and a just transition.

Predictable carbon pricing signals and compliance markets create stable and reliable incentives for investors, companies and consumers to adopt or develop emissions reduction technologies and practices. The EU Emission Trading System (ETS) has already reduced emissions of sectors covered by -37% since 2005. The PRI welcomes the reforms to the ETS, adopted as part of the Fit for 55 package, i.e., expanding the scope and reduction of allowances (ETS), including the building and transport sectors (ETS II), and addressing carbon leakage with the world's first Carbon Border Adjustment Mechanism (CBAM). However, free allowances to high-emitting sectors of €460 billion until 2030 counteract these incentives for clean investments. Fossil fuel subsidies, particularly for gas, lead to costly infrastructural and institutional lock-ins and slows down investments into renewable energy alternatives.

Going forward, allowances and certificates under ETS, ETS II and CBAM need to be adapted to reach net zero emissions by 2050. This includes close-to-zero emissions for stationary installations under ETS by 2040 as well as a cross-sectoral reduction of fossil fuels by 80%. At the same time, rising energy and transportation costs will make mechanisms to safeguard vulnerable populations from such costs increasingly important.

Thus, we recommend EU co-legislators to:

- **Align the ETS for faster emissions reduction.** A predictable phase-out of free allowances for high-emission sectors is necessary to incentivise these sectors to decarbonise faster and achieve close to zero emissions by 2040 for stationary installations covered by ETS.
- **Carefully monitor the introduction of the new CBAM.** This includes a gradual expansion of CBAM to more products and sectors as set in CBAM regulation, aligning the increase of CBAM certificates with the necessary reduction of ETS allowances, and engaging in diplomatic efforts to introduce comparable carbon pricing in the EU's major trading partners (as this will decrease the need of CBAM over time).
- **Ensure adequate safeguards for vulnerable households.** Revenues from ETS II should bolster the Social Climate Fund and be supported with additional funding as necessary. Applying carbon dividends – giving back revenues from higher carbon prices to citizens – should address regressive impacts from higher energy, transportation, and food prices.
- **Phase out fossil fuel subsidies.** The reform of the Energy Taxation Directive (ETD) should remove subsides or tax breaks that counteract financial incentives to phase out coal and fossil gas in public electricity and heat generation. Funds should be redirected towards safeguarding mechanisms for vulnerable populations affected by price increases.

Implement policies that reduce demand for energy and raw materials.

The most sustainable energy is that which is not used in the first place. Energy efficiency and sufficiency remain essential for rapid decarbonisation. By mandating the doubling of energy efficiency rates by 2030, the revised Energy Efficiency Directive (EED) supports the "energy efficiency first" principle with more ambitious targets for Member States. However, implementation may be challenging as previous EU efficiency targets have been consistently missed by Member States.

Circular economy approaches are beneficial for climate mitigation, energy sufficiency, and economic competitiveness, as outlined in the Circular Economy Action Plan (CEAP) for 2020 and the recently revised EU Circular Economy monitoring framework. While demand for raw materials critical for the net zero economy is growing, secondary materials still account for less than 12% in the EU. For many specialty metals and rare-earth elements such as lithium, gallium, and neodymium, end-of-life recycling input rates are just around 1%, while these rates have increased to 16% for nickel and 22% for cobalt, both raw materials used in batteries.

The provisionally agreed Eco-design for Sustainable Products Regulation (ESPR) sets requirements on circular economy attributes, i.e. increased product durability, reusability, upgradability, and reparability, as well as recycled content, and better data on material composition of products. The provisionally agreed Right to Repair Directive strengthens consumer protection rights for longer product use. This legislation increases the EU's strategic autonomy for energy, raw materials, and security of value chains. It also promotes new business models, innovation, and new investment opportunities for the net-zero economy. However, these policies alone are not sufficient, and **circular economy approaches should feature more prominently in the climate policy debate**.

To reduce the demand for both energy and raw materials, we recommend EU co-legislators to:

- **Support proactive energy saving measures.** Municipalities and public bodies can lead by example in implementing EED measures; for example, by applying energy-saving measures in buildings, transportation, and public utilities; increasing renovation rates; shifting to performance-based energy contracts; and integrating energy and material efficiency requirements into procurement guidelines for products, services, buildings, and infrastructure projects.
- **Accelerate energy efficiency in buildings.** Buildings make up 42% of EU energy demand, so electrification of heating and cooling can provide significant energy savings. Effective implementation of the Energy Performance of Buildings Directive (EPBD) should incentivise installing heat pumps, better insulation, and large-scale district heating where possible.
- **Strengthen circular economy approaches.** Rapid implementation of the ESPR and the Right to Repair should be followed by the conclusion of outstanding actions and policies in the CEAP, focused on regulation and information including standards, labelling and data harmonisation. The ESABCC should further assess circular economy contributions to the climate target for 2040 by reducing energy and material demand, and include co-benefits for diversified supply chains, increased economic competitiveness, climate resilience and adaptation, and strategic autonomy in the EU.

Accelerate electrification by increasing deployment of renewable energies and expanding transmission infrastructure.

In addition to curbing energy demand, electrification of energy systems with renewables is key for the climate and energy transition. The EU has called for tripling renewable energy globally and revised the Renewable Energy Directive (RED III) as part of the Fit for 55 package, doubling renewable energy targets from 2020 to 2030. Accelerating the deployment of renewable energies addresses the 'energy trilemma' of energy security, affordability, and sustainability. This will help lowering demand for fuel imports from abroad, reducing energy costs from domestic sources, and reducing emissions

and other harmful environmental impacts. But harnessing these benefits **requires significant upfront investments in energy infrastructure and transmission grids**.

At the same time, the potential environmental impacts of increased RED III targets require more scrutiny. While energy from biomass still contributes close to 60% of the EU's renewable energy share, RED III continues to incentivise its use, increasing risks of higher emissions, nature degradation, and biodiversity loss. These harmful impacts are magnified as other policies refer to RED III criteria for bioenergy. For example, ETS considers the use of bioenergy as carbon-neutral and exempts it from purchasing emission certificates, and the EU Taxonomy classifies bioenergy as environmentally sustainable. We support the Commission's conclusion, based on ESABCC recommendations, that **bioenergy should be prioritized for sectors where electrification potential is limited**, such as air or maritime transport (i.e., Refuel EU Aviation and Maritime directives).

The PRI proposes the following recommendations for EU co-legislators:

- **Accelerate electrification with 'no-regret' renewable energies for RED III targets.** Scalable, cost-efficient, and low-emission energy options that prevent carbon lock-in include onshore and offshore wind, solar power, and electrified heating and cooling in buildings with heat pumps. Green hydrogen (as a renewable fuel of non-biological origin, or RFNBO) should be prioritised for sectors with no feasible alternatives. Subsidies for fossil fuels or biomass for power generation should end.
- **Assess the alignment of renewable energy options with 2040 climate targets.** Renewable energies covered in RED III should be assessed by the ESABCC on their impact on climate mitigation and land use for nature restoration and agriculture, and be prioritised according to their alignment with the 2040 target. This assessment should also guide the use of REPowerEU funds which may contribute to new fossil gas and oil pipelines and LNG terminals, increasing the risk of long-term fossil infrastructure lock-in.
- **Review sustainability criteria for biofuels and biomass for energy in RED III and the EU Taxonomy.** Classifying biomass for energy use as carbon-neutral in the ETS, resulting in its exclusion from emission allowances, does not align with best available scientific evidence. Using biomass to achieve RED III targets increases the risk of higher emissions, biodiversity loss, and supply challenges for increasingly limited biomass resources. RED III definitions, EU Taxonomy technical screening criteria (TSC), and related Do No Significant Harm (DNSH) criteria should be revised in alignment with ESABCC advice on biomass and other energy options classified as 'environmentally beneficial'.

Enhance nature-based solutions for mitigation and biodiversity co-benefits.

From 2050, the European Climate Law aims for negative emissions, removing more carbon from the atmosphere than has been emitted. The use of carbon capture and storage (CCS) solutions will need to increase significantly, as the Commission has already pointed out. Despite ambitious targets for at-source solutions, the majority will need to be stored in natural carbon sinks. The Land Use, Land Use Change and Forestry (LULUCF) Directive is essential to achieve this objective as it sets carbon sink

targets needed to reach the 2030 emissions reduction target. But without significant restoration measures, carbon sink capacity will reduce and make this target impossible to reach.

Peatlands, agroecosystems, and forests, hold immense potential to provide nature-based solutions for safeguarding carbon stocks and increasing carbon sequestration. This leads to increasing biodiversity, climate resilience, and adaptation capacity for extreme weather events. Restoring wetlands, rivers, forests, grasslands, marine ecosystems, and the species they host also builds up Europe's resilience and strategic autonomy, by preventing natural disasters and reducing risks to food security. The Nature Restoration Law (NRL) and its mandatory habitat restoration targets need to be implemented to ensure interrelated climate mitigation and biodiversity benefits.

The PRI recommends EU co-legislators to:

- **Ensure the consistency of LULUCF carbon sink targets with other EU policies.** Systematic assessment of natural carbon removal capacities and targets as well as co-benefits from ecosystem services need to inform decisions on renewable energy choices in RED III as well as the Common Agricultural Policy (CAP).
- **Implement and enforce an effective NRL,** with mandatory restoration targets, national restoration plans, and estimated financing needs for policy measures. Restoring drained peatlands, for example, could save up to 25% of Europe's land-based emissions.
- **Support scaling up nature-based solutions by de-risking investments.** Financing mechanisms for nature still face uncertainty and perceived investment risks. Instruments to incentivise investments include blended facilities (such as the Natural Capital Financing Facility) and debt instruments with tailored eligibility criteria for the private sector. Advisory services should enhance technical assistance on biodiversity issues for funding programmes, following examples like Green Invest in the InvestEU Advisory Hub.

3. CREATE AN ENABLING ENVIRONMENT FOR TRANSITION FINANCE

The EU faces a financing gap of €620 billion annually to reach the 2030 climate targets. According to the Commission, annual investment needs for 2031-2050 will increase further, specifically in the energy sector (€660 billion, or 3.2% GDP), and the transport sector (€870 billion, or 4.2% GDP). Public and private investments in clean energy and transport will need to quadruple to achieve 2040 targets. The estimated ratio of private to public investments ranges from 2:1 to 5:1, i.e. between 66% and 83% of total investments will need to come from the private sector.

The PRI welcomes the Commission's focus on making Europe more attractive for investments. To bridge the existing finance gap, investors need

(i) transparency about funding dedicated to climate-related activities;
(ii) an enabling regulatory environment for sustainable finance; and
(iii) mechanisms to de-risk sustainable investments.

De-risking mechanisms to leverage private finance requires setting up a combination of different policy tools. This includes simplifying access to large-scale pooling of funds; support in frontloading and maximising existing public finance resources; and tailored financial instruments for innovative technologies and practices not yet profitable within the current carbon price trajectory.

Provide transparency for post-2026 climate-related EU funding.

Two primary budget sources are allocated to climate-relative investments, which feed into a variety of other EU funding mechanisms. These are:

- the regular 7-year Multiannual Financial Framework (MFF) 2021-2027, with €1.2 trillion (of which 30% are reserved for climate expenditures); and
- the Recovery and Resilience Fund (RRF), main disbursement mechanism of NextGenerationEU post-Covid recovery funds, with €723 billion (with 37% of funds reserved for climate measures).

EU funding dedicated to climate-related investments beyond 2027 is still uncertain. The RRF is scheduled to run until 2026, and the new MFF 2028-2024 has not yet been decided.

To better plan and ultimately increase transition finance, the EU needs to increase public financing certainty with a more long-term, granular, and accurate overview of actual and required investments in climate mitigation. The methodology and assessment criteria for MFF and RRF funds allocated to climate-related spending should be improved to provide a better overview of climate-related investment needs and allocated public resources.

European co-legislators should:

- **Align the new MFF 2028-2034 with EU Taxonomy criteria**. "Climate mainstreaming" the MFF will allow for better tracking and monitoring of climate-related spending. Applying Taxonomy TSC should better assess if budget resources allocated to climate-relevant activities can be expected to provide desired climate mitigation impacts. The DNSH principle should also be used within the MFF reporting methodology to identify budget spending on potentially harmful activities.
- **Continue RRF funding post-2026 for climate action.** The common debt approach is an important instrument to increase investor certainty and boost EU public investments. The current application of DNSH criteria in the RRF funding should provide an example for Taxonomy integration into other funds.
- **Bolster the Green Deal Industrial Plan (GDIP).** This should incorporate the technology-related strategies established in the Net-Zero Industry Act (NZIA) and Critical Raw Materials Act (CRMA). Financial support as part of the Strategic Technologies for Europe Platform (STEP) should be increased to provide more leverage for private investments to mobilise additional investment needs of €620 billion annually until 2030, to meet the EU Green Deal objectives.

Mobilise private sector investment through de-risking instruments, financial incentives, and increasing availability of bankable green projects.

Since the 2018 Action Plan on Financing Sustainable Growth, the EU has adopted a series of legislative measures as the foundation of its sustainable finance regulatory framework. The renewed sustainable finance strategy (2021) and dedicated recommendation on transition finance (2023) show how the European Commission is increasingly working to align sustainable finance policies and public finance instruments with Fit for 55 and other real economy policies to achieve the European Green Deal objectives. Sustainable finance legislation should accelerate financing the net-zero transition, by applying the EU Taxonomy, the Sustainable Finance Disclosures Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), transition plan disclosures as part of the European

Sustainability Reporting Standards (ESRS) and the Corporate Sustainability and Due Diligence Directive (CSDDD), the EU Benchmarks Regulation, and the EU Green Bond Standard.

However, there is still a need for additional, more focused policy interventions that mobilise private investments for the net-zero transition. Perceived risks and high up-front costs for investments in clean technologies remain barriers for increasing transition capital. Scaling sustainable investments requires **more de-risking, financial incentives, and a larger availability of bankable green projects**, which are not yet abundant enough for wide-spread portfolio realignment. Incentives include tailored financing solutions, public guarantees, long-term loans, and other de-risking mechanisms. Public procurement is another underused lever, as the public sector purchases goods and services worth about €2 trillion or 13.3% of GDP in 2017. This includes material-intensive markets like construction (steel, cement, and other raw materials for infrastructure projects), and a non-negligible part of the vehicle market.

In addition to adopting sectoral roadmaps and making NECPs useful for investment decisions (see Part 1), we recommend EU co-legislators to:

- **Revise the EU Taxonomy regularly to align with the EU climate target for 2040.** As specified in Article 19 of the Taxonomy Regulation, the Commission should initiate regular reviews of TSC in line with scientific and technological developments to ensure compatibility with science-based decarbonisation pathways for climate neutrality. This will provide transparency and help inform investment and lending decisions for public and private market actors. The European Commission should also publish a report, as mandated by the EU Taxonomy regulation, that initiates and defines the modalities for the environmental extension of the level 1 Taxonomy regulation. This review should be informed by the Platform on Sustainable Finance report on the extended environmental taxonomy.
- **Ensure disclosure of corporate transition plans**. This will be facilitated by effective implementation of ESRS 1 and 2, and timely adoption of the sector specific ESRS. The Commission should also provide further implementation guidance and ensure consistency with transition planning requirements as part of CSDDD and related legislations.
- **Increase supply of bankable climate mitigation projects.** Policies addressing technology-specific risks and funding gaps should boost private investments, i.e., speeding up permitting processes, removing regulatory uncertainties, and providing tailored financing incentives and solutions where investments are not yet profitable with the current carbon price trajectory. Project developers should receive technical assistance to advance the pipeline of investable projects and aggregate projects to a viable scale to enable institutional investment.

Leverage public funding instruments to simplify access to pooled resources and tailored financial instruments for transition investments.

Public finance instruments to crowd-in private investments are still used in a too risk-averse way. Programmes like InvestEU provide opportunities to trigger investments in high risk, low return, or future-oriented projects not yet profitable within the current carbon price trajectory. EU and national public finance bodies can do this through concessional finance; grants; guarantees and other risk-sharing instruments; long-term credit lines; and investment guidelines, depending on the risk and maturity of the investment.

We recommend EU co-legislators to:

- **Bolster public funding programmes**. To encourage more risk-taking by the European Investment Bank (EIB) and other (national) public banks, InvestEU should increase EU budget guarantees, alongside providing better targeted grants and long-term loans. Funding from the European Regional Development Fund (ERDF), Cohesion Fund (CF), ETS Innovation Fund, Horizon Europe and others should be better pooled for investments. Financial capacity to crowd-in additional investments should increase in line with decarbonisation pathways to 2040, including stronger funding for the Strategic Technologies for Europe Platform (STEP).
- **Strengthen EIB Group leverage post-2025**. The EIB Group Climate Bank Roadmap (CRB) and PATH financing capacity – currently aiming to mobilise €1 trillion of green investment by 2030 – should be aligned with EU 2040 climate targets. These instruments may integrate better tailored de-risking instruments for different projects and types of private investments.
- **Make funding more accessible for investors.** This requires pooling available funds and providing more technical assistance and capacity building on what instruments are available, and how to access them including specific requirements (e.g. on risk assessment and transition planning). Technical support initiatives may build on existing facilities like the InvestEU Advisory Hub and the EIB PATH framework for Paris-Aligned investments.
- **Leverage Green Public Procurement (GPP).** Public bodies at EU and Member State level should require GPP for their investment decisions, to use their purchasing power to stimulate demand and investment for the net-zero economy. KPIs should include energy savings, manufacturing and material efficiency, and circularity of products and services. GPP criteria should build on Taxonomy TSC, DNSH, and due diligence requirements.

4. EMPOWER STAKEHOLDERS TO CO-CREATE A JUST TRANSITION

Achieving the 2040 climate target will not be possible without wide-spread public support. We welcome the Commission's view that the EU climate agenda should be built on investments and policies that generate social and economic benefits and reduce poverty and inequalities. This includes:

(i) safeguards for most vulnerable households that soften future price shocks;
(ii) access to affordable energy solutions; and
(iii) an adequate social protection floor that enables citizens to take up new opportunities.

At its core, public support is based on the perceived fairness of the transition. Citizens, workers, and communities should be involved in the decisions that affect their lives. Establishing stakeholder dialogues and participation should empower all affected stakeholders to contribute and benefit from the transition. A whole-of-society approach brings together policy makers from all levels, civil society, the private sector, investors and banks, scientific advisors, and other stakeholders.

Foster public support and engagement for a just and fair transition.

Policies that ensure protection from negative impacts while incentivising sustainable goods and services are not sufficiently clearly set out. The effectiveness and impact of these proposed measures requires more scientific scrutiny, including assessment by the ESABCC.

We recommend EU co-legislators to:

- **Assess how to better integrate social implications and local needs into climate policy.** The ESABCC should provide regular impact assessments and ex-post evaluations on how to reinforce synergies between social and climate policies and provide better narratives and implementation strategies that respond more effectively to local needs. Improved social justification for climate measures, informed by data on costs and socioeconomic co-benefits of policies, can support a new idea of prosperity and increase support for the transition among all stakeholders.
- **Ensure well-designed, effective, and adequately funded transition support policies.** Compensatory measures like the new Social Climate Fund (ETS2) and Just Transition Fund (JTF) should be assessed regularly on how effective they are in achieving their objectives, if the level of funding is adequate or requires fiscal support, and if efficiency and impacts can be improved, including by pooling resources.

Strengthen agency and stakeholder collaboration for climate and social policies.

Engaging regularly and continuously with public and private sector stakeholders on NECPs (as mandated in Art. 11 of the Governance Regulation) helps increase transparency, democratic participation, and a broader understanding of the net-zero transition. A permanent, transparent, multilevel **climate and energy dialogue should be established** at the national level and extended into regional and local levels to address social implications and co-benefits of the transition. It should bring together national and local authorities, civil society organisations, businesses, investor and financial institutions, and citizens.

We recommend EU co-legislators to:

- **Strengthen public participation in NECPs.** Permanent multilevel dialogue should bring together public, private, and civil society sectors in roundtables, consultations, and other forms of participation and feedback. It should create platforms for regular exchange on different stakeholders' needs and challenges; provide independent scientific advice; share experiences on tackling transition challenges; design mechanism for cross-sectoral co-benefits; and increase public buy-in for a successful and inclusive transition.
- **Support capacity building and technical skills for the transition as part of a whole-of-society approach.** Policy makers at all levels – national, regional, and municipal – should establish platforms with regular technical assistance and peer-to-peer learning opportunities on how to plan, finance, and implement NECPs and related net zero transition projects at the local level. Stakeholders should include companies, industry, the financial sector including public and private financiers and investors, labour organisations, and civil society. This would aim to strengthen cross-sectoral collaboration and implementation capacity for net zero transition planning to adequately address local and sectoral needs.

ANNEX – GLOSSARY

CAP	Common Agriculture Policy
CBAM	Carbon Border Adjustment Mechanism
CCS	Carbon capture and storage
CEAP	Circular Economy Action Plan
CRMA	Critical Raw Materials Act
CSDDD	Corporate Sustainability and Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm
EED	Energy Efficiency Directive
EIB	European Investment Bank
EPBD	Energy Performance of Buildings Directive
ERDF	European Regional Development Fund
ESABCC	European Scientific Advisory Board on Climate Change
ESPR	Eco-design for Sustainable Products Regulation
ESRS	European Sustainability Reporting Standards
ETD	Energy Taxation Directive
ETS	Emissions Trading System
GHG	Greenhouse gas
GPP	Green Public Procurement
GDIP	Green Deal Industrial Plan
JTS	Just Transition Fund
LTS	Long-Term Strategy
LULUCF	Land Use, Land Use Change and Forestry
MFF	Multiannual Financial Framework
NECP	National Energy and Climate Plan
NRL	Nature Restoration Law
NZIA	Net Zero Industry Act
RED	Renewable Energy Directive
RRF	Recovery and Resilience Fund
SFDR	Sustainable Finance Disclosures Regulation
STEP	Strategic Technologies for Europe Platform
TSC	Technical Screening Criteria