CLC Position paper:

Simple policies with high ambition

Climate Leadership Coalition's recommendations for the next European Commission to accelerate the path to net zero by 2050

CLIMATE LEADERSHIP COALITION

Executive summary

The European Union stands at a critical juncture, facing intertwined ecological and economic challenges while striving to maintain its global position in clean technologies. As leading Northern European businesses, at CLC, we recognise the immense potential of the European leading technologies and solutions and emphasise the need to respond with the right mix of policies to seize these opportunities.

This paper outlines key policy recommendations aimed at ensuring Europe's competitiveness in clean industries while advancing its climate goals. These recommendations are organised into four main areas:

1 We advocate for the European Commission to **maintain its long-term climate ambition**, including a 2040 emissions reduction target of 90% compared to the 1990 level. To operationalise these goals, a predictable regulatory framework is essential, building on existing policy architecture **while simplifying and streamlining regulation** to fit better for the purpose.

2 We believe it is necessary to **strengthen the competitiveness of European clean industries** as the current unstable geopolitical landscape and massive national subsidies from global competitors pose challenges for European industries. To enhance competitiveness, we recommend aligning EU industrial policy with climate objectives and ensuring fair competition across Member States.

3 We suggest expanding carbon pricing to sectors currently lacking ambitious policies. **Prioritise market-based mechanisms to achieve climate and environmental goals** as they have proven effectiveness in reducing greenhouse gas emissions. Moreover, the full implementation of the Carbon Border Adjustment Mechanism must be used to ensure a level playing field for European industries and incentivise global decarbonisation efforts.

4 We recommend **promoting the large-scale deployment of carbon removals**, always alongside emission reduction efforts, in view of the high likelihood of climate overshoot. The next EU Commission must define a long-term carbon budget to guide removal capacity planning.

The emissions reductions needed in this decade are higher than in the previous three decades combined. In the next decade, the need to reduce emissions will still be even greater.

To fund emission reduction goals, annual investment in clean solutions in the EU, mainly from the private sector, should be quadrupled by 2030. This is a great opportunity for the EU but also a practical measure of the capacity of the Union to transform its future.

1 Maintain long-term climate ambition and simplify regulation

The European Commission's recommendation for a 2040 climate target to reduce emissions by 90% relative to 1990 levels – in line with CLC's response to the target consultation – is the right intermediate step to achieve climate neutrality in the EU by 2050.

Development of EU emissions and carbon sinks from 2020 to 2100, Mt CO_2e

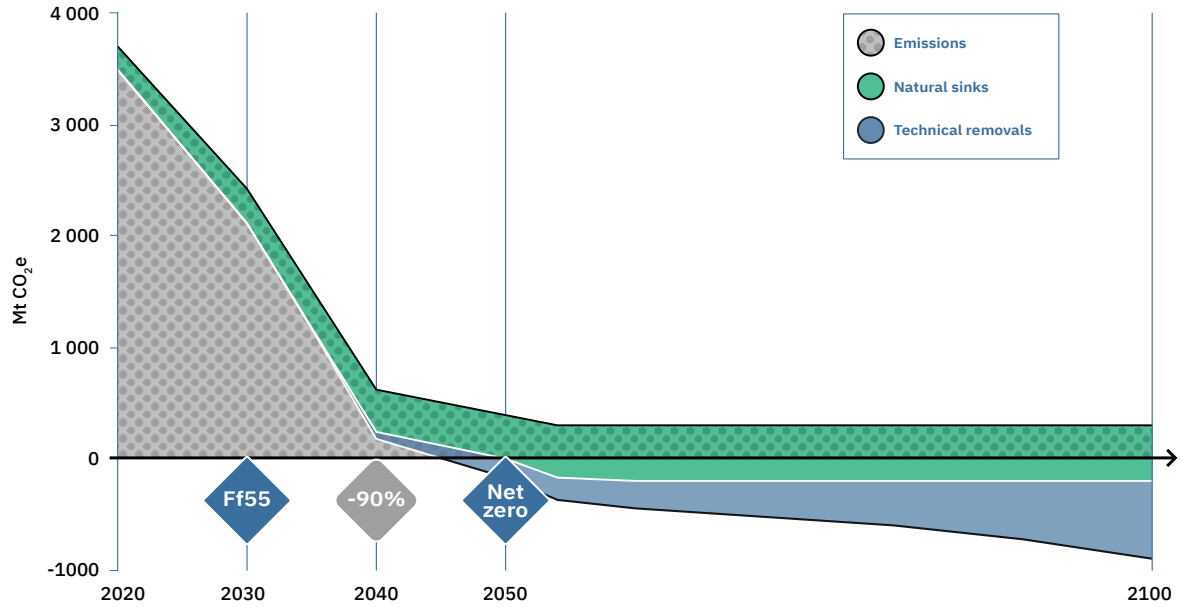


Figure 1: Projection of EU net emissions from 2020 to 2100 (Source: CLC, based on data from the European Commission)

Once this target and its subsequent carbon budget are finally set, it will be essential to ensure the timely adoption of legislation that will operationalise them in the form of concrete initiatives. A predictable regulatory framework that builds on the policy architecture developed under the von der Leyen Commission is crucial to unlock necessary investment in low-carbon technologies.

However, the effective implementation of future and current climate legislation, including what is missing of the agreed Green Deal, remains a challenge for Member States with limited administrative capacity. That is why we encourage the next Commission to support the actions of Members States with data, knowledge and, in special cases, funding. Likewise, a myriad of conditionalities, compliance requirements and reporting rules make the system difficult for European companies to navigate.

To support rapid emissions reductions, exisiting assests, such as the built environment and public transport, will also need to be transformed to limit warming to 1.5ºC. Member States should also prioritise and incentivise circularity criteria for digital and reparable solutions with prolonged lifetimes.

The EU should strive for greater simplicity and pragmatism when designing measures, while maintaining a high degree of climate ambition. To support climate transformation, more effective sustainable product policies and circular economy measures should be employed.

Policy recommendations:

1. **Set the EU's climate target for 2040 to –90% and the subsequent carbon budget for the period 2030 to 2050 as low as possible.**
2. **Ensure a stable and predictable regulatory environment by swiftly adopting legislation that will operationalise the 2040 climate target in the form of concrete initiatives.**
3. **Support Member States in efficiently implementing agreed climate and circularity legislation to ensure the achievement of the 2030 target.**
4. **Design future policies to be less cumbersome and reduce administrative burdens to drive green growth without risking environmental integrity.**

2 Strengthen the competitiveness of European clean industries

The consequences of recent geopolitical tensions and state aid in the US and China for strategic green sectors have undermined the competitiveness of European industries. In response, the European Commission has sought to boost clean tech investments by relaxing state aid rules through the Temporary Crisis and Transition Framework.

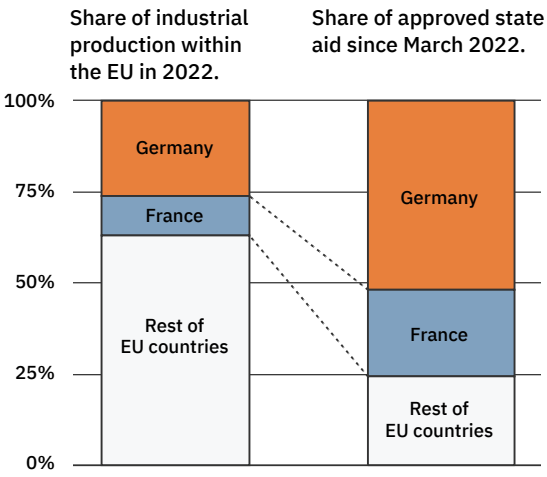


Figure 2: Industrial production compared to approved state aid projects within the EU, % (Source: Eurostat)

While impressive levels of public funding have been mobilised, this measure has also had the undesired effect of undermining fair competition and disrupting the level playing field within the European single market. This has come especially at the expense of the industries of smaller Member States. In fact national subsidies granted in Germany and France together accounted for almost 80% of the €670 billion in state aid programmes, despite the combined industrial production of the two countries representing less than 40% of the EU total that year.

To strengthen industrial competitiveness across Europe, the next Commission must align European industrial policy more closely with EU climate objectives. The actions to enhance competitiveness should also be taken at the EU level and be based on excellence, to prioritise the most innovative and ambitious projects.

While the EU's climate policy has focused on carbon pricing and incentivising innovation, it so far lacks the policy instruments to incentivise high technology level carbon-free products. This creates a need to complement policies such as the ETS with a targeted, strategic industrial policy to strengthen net-zero value chains and develop circular opportunities. For this, the EU should employ smart demand-side instruments like auctions and carbon contracts for differences as well as public procurement and blending obligations.

However, the availability of fossil-free energy and competitive energy prices are a prerequisite for the transformation. Accelerating the build-up of fossil-free electricity generation will contribute to increasing competitiveness and should be supported with appropriate market design and permitting procedures. Lastly, to guarantee longer-term innovation capacity, the EU's R&D expenditure, 2.2% of GDP, must be increased to at least the same level as in the US, 3.4% of GDP.

Policy recommendations:

1. **Develop a European green industrial policy that uses mechanisms like demand-side instruments to advance the market entry of key low-carbon technologies.**

2. **Cease the relaxation of state aid rules, which undermine fair competition and the level playing field within the EU single market, especially at the expense of smaller States.**

3. **Accelerate the build-up of fossil-free electricity and secure investments in critical infrastructure for the energy transition (e.g. electricity and hydrogen transmission networks and energy storage).**

4. **Increase EU research and development expenditure to ensure innovation capacity to strengthen net zero value chains and develop circular opportunities.**

Textbox 1. Example of approved state aid project

In July 2023, the European Commission approved two German state aid measures aimed at supporting ThyssenKrupp to decarbonise its steel production and accelerate uptake of renewable hydrogen. These national measures, a direct grant of €550 million and a conditional payment mechanism of up to €1.45 billion, collectively cover a significant portion of the project's total investment cost, approximately €3 billion.

While these levels of public funding are absolutely necessary to advance the green-tech transition, they must not come in the form of state subsidies. This will distort the internal market by giving companies from large Member States an advantage over those from smaller countries and would likely lead to inefficient outcomes from a European-wide perspective.

3 Prioritise market-based mechanisms to achieve climate and environmental goals

Net greenhouse gas emissions within the EU have decreased by almost a third since 1990. The majority of the decrease is due to EU ETS, a carbon pricing mechanism with a lowering cap for emissions. Moreover, EU ETS has also helped foster low-carbon investments to accelerate the green transition.

To reach net zero by 2050, it will be necessary to secure emissions reductions in sectors that currently do not have ambitious policies in place. In this respect, we welcome the upcoming EU ETS2 for the road transport and heating sectors and recommend extending carbon pricing and EU ETS to sectors that are not currently aligned with the EU's overall climate ambitions, for example agriculture and waste.

According to the IEA, during the coming decades, more than a third of reductions in greenhouse gas emissions must come from less mature technologies that are still in the emerging stages, including hydrogen and its derivatives. However, only a small amount of private investment has been channelled into these new technologies over recent years. Given that the price of allowance under the EU ETS might be insufficient to incentivise these key technologies, their market entry must be supported through additional instruments.

European industry is subject to the EU's climate targets and carbon pricing under the EU ETS, unlike its global competitors, for which there are equivalent climate ambitions or pricing schemes in place. Currently, only a little over 20 per cent of global emissions are subject to any kind of carbon pricing, and a global pricing system seems unlikely in the near future. In the absence of global carbon pricing, the EU's increasing climate ambition necessitates additional measures, such as the Carbon Border Adjustment Mechanism (CBAM), to ensure a level playing field. The main aim of the CBAM should be to support decarbonisation efforts outside the EU and incentivise third countries to introduce carbon pricing and corresponding climate targets.

With regard to enhancing biodiversity, a market-based approach should be prioritised, given the opportunities available to the private sector.

Policy recommendations:

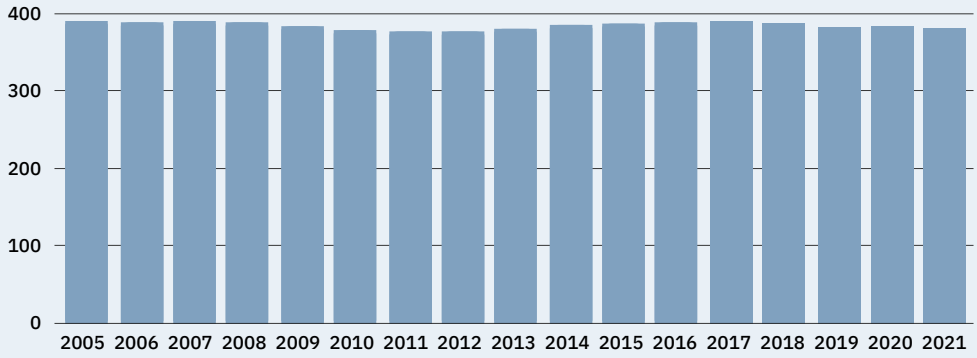
1. **Extend carbon pricing to the agriculture and waste sectors, which are not currently covered by the EU ETS.**
2. **Phase out fossil subsidies to speed up the development of low-carbon solutions.**
3. **Continue to promote carbon pricing globally, while securing a global level playing field until other countries have adopted similar mechanisms.**
4. **Prioritise market-based mechanisms in enhancing biodiversity.**

Textbox 2. Steadiness of EU agricultural emissions since 2005

Emissions from agriculture account for about 11% of total emissions in the EU and have remained almost unchanged in absolute terms since 2005. As all sectors will need to contribute to the 2050 climate neutrality objective, the agriculture sector should also be addressed.

According to the European Scientific Advisory Board on Climate Change there is potential to reduce emissions by 30% by 2050 compared to 2005 through supply-side measures. Applying additional demand-side actions could increase this further.

Applying a carbon-pricing mechanism to agriculture would provide a financial incentive for farmers to reduce emissions.



Development of total emissions by the EU agricultural sector from 2005 to 2021, Mt CO_2eq (Source: CRF tables, European Commission)

4 Promote large-scale deployment of carbon removals

Even if the EU succeeds in reducing its net emissions in the coming decades, it is now becoming more evident that a climate overshoot will occur and that global temperatures will exceed the 1.5°C goal set out in the Paris Agreement. However, it is possible that some of this excess warming could be reversed if global emissions are reduced to net zero and net negative thereafter.

For this reason, while emissions reductions must remain the priority, the next European Commission must work to increase European carbon sinks (as suggested in our position paper on land use and nature-based carbon removals) and incentivise technical solutions for removing carbon from the atmosphere. This must start as soon as possible, as the lead times for both effective nature-based and technical removals are long.

Specifically, the next Commission should ensure the appropriate regulatory and investment conditions to scale up technical carbon removals like bioenergy with carbon capture and storage (BECCS), direct air carbon capture and storage (DACCS), biochar and other technologies. Likewise, carbon capture and utilisation (CCU) technologies should be scaled up. Regarding the upscaling of nature-based removals, the dynamics of forest growth and the potential of the circular bioeconomy should be considered.

To determine the need for removal capacity, the next Commission will have to define the EU's long-term carbon budget, up to 2100. The aim should be to neutralise the EU's emissions accumulated in advance of reaching the net zero target.

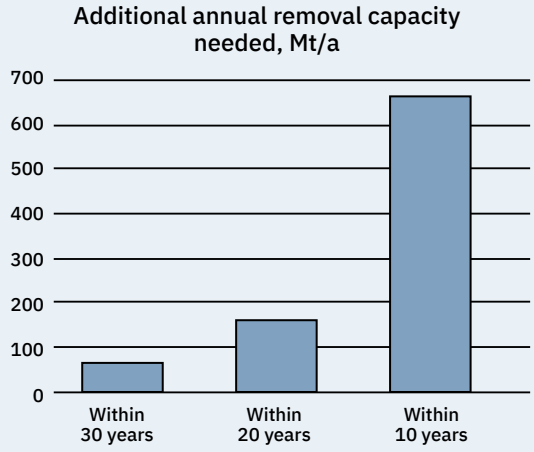
Policy recommendations:

1. **Set the EU's carbon budget up to 2100 to determine the need for carbon removal.**
2. **Create separate absolute long-term targets for nature-based and technological removals.**
3. **Lay out appropriate regulatory and investment conditions to scale up technological carbon removal over the next 10 years.**
4. **Foster carbon capture and utilisation technologies for the creation of manufactured, long-lasting carbon storage solutions as an alternative to geological storage.**
5. **Scale up nature-based carbon removals and the European circular bioeconomy to enhance long-term storage for biogenic carbon.**

Textbox 3. Carbon removals needed to neutralise the EU's cumulative emissions within different timeframes

Reversing the global average temperature increase beyond 1.5°C will require removing large amounts of carbon dioxide from the atmosphere. Scaling up carbon dioxide removals (CDR) for this will require active and urgent public policies. The earlier we start to deploy CDR capacity, the lower the total costs will be.

The example below illustrates the difference. If we reserve 30 years for removing carbon, the annual investment needed will be only 10 per cent of the case in which we do the same job in 10 years.



Additional annual removal and the total capacities needed to neutralise the EU's cumulative CO_2 emissions between 2024 and 2050 within different time frames, Mt/a. (Source CLC)

Further information: Development Director **Juha Turkki**, +358 45 346 1925, juha.turkki@clc.fi

CLIMATE LEADERSHIP COALITION

Climate Leadership Coalition is the largest non-profit climate business network in Europe.
CLC has 99 organizational members. We believe that profound transition to a sustainable world can be economically beneficial, viable and financeable. Together we aim to make a significant positive climate and nature impact through business solutions. CLC encourages decision makers to speed up the clean transition by attracting investments via predictable and ambitious policies and systemic market-driven solutions.

ABB · AFRY · BOLIDEN · BCG · biocode · caruna · carboculture
CASTRÉN & SNELLMAN · Caverion · COMBIENT · COOLBROOK · ELENIA · Electrolux · elisa
elo TYÖELÄKEYHTIÖ · ENSTO · EVLI ALEXANDER INCENTIVES · Fazer · FINNAIR · FINNO EXERGY · FINNSEMENTTI A CRH COMPANY
FISKARS EST. GROUP 1649 · Flexens · fortum · GASGRID · Gasum · HELEN · Huhtamaki
Husqvarna Group · ILMARINEN · K · KONE · L&T · LOCALTAPIOLA · marimekko
MEHILÄINEN · Metso · miltton · NESTE · NOKIA · Nordea · outokumpu
PORVOON ENERGIA BORGÅ ENERGI · posti · PROCOPÉ & HORNBORG · puro.earth · P2X solutions · Remeo
SAINT-GOBAIN · sanoma · SEB · SPINNOVA · storaenso · st1 · SWECO
Terveystalo · TORNATOR · TURKU ENERGIA · uponor · Valio · VARMA · VAISALA
Vestas · VR · WÄRTSILÄ · YIT · ZERO TERRAIN · ÅLANDSBANKEN · ESPOO ESBO
Lahti · PORI · PORVOO BORGÅ · TAMPERE · TURKU · VAASA VASA · Aalto University · HANKEN
HELSINGIN YLIOPISTO HELSINGFORS UNIVERSITET UNIVERSITY OF HELSINKI · LUT University · Tampere University · UNIVERSITY OF EASTERN FINLAND · TURUN YLIOPISTO · UNIVERSITY OF OULU · Vaasan yliopisto UNIVERSITY OF VAASA
Akava · Compensate Foundation · DEMOS HELSINKI · Energiateollisuus · FINANCE FINLAND · Finnish institute for health and welfare · LINJA-AUTOLIITTO
Luke LUONNONVARAKESKUS · palta · Teknologiateollisuus · TAH TIINA JA ANTTI HERLININ SÄÄTIÖ · SITRA · Suomen ympäristökeskus Finlands miljöcentral Finnish Environment Institute · VTT