



# Towards EU climate neutrality

## Progress, policy gaps and opportunities

### Chapter 1: Introduction

Assessment Report 2024

# Contents

- 1 Introduction..... 5**
- 1.1 Context .....5
- 1.2 Objective of the report.....6
- 1.3 Scope of the report.....7
- 1.4 Outline .....7

# 1 Introduction

## 1.1 Context

The European Climate Law (EU, 2021c) sets out legally binding objectives for the EU to reduce its GHG emissions by at least 55 % by 2030 (compared to 1990), to reach net zero GHG emissions by 2050 at the latest, and to aim to achieve negative emissions thereafter. Achieving the 2030 and 2050 climate objectives under the European Climate Law requires GHG emission reductions at an unprecedented rate and scale, which will need to be driven by a comprehensive portfolio of ambitious and effective policies covering all sectors of the economy. To put the EU on track towards the 2030 – 55 % objective, the European Commission has proposed a wide range of policies under the European Green Deal (EC, 2019c) and the Fit for 55 package (EC, 2021m), building on the existing climate and energy *acquis*, which helped the EU to achieve its climate and energy objectives for 2020.

Since the launch of the Fit for 55 package, the broader socioeconomic and geopolitical context in which the EU is pursuing its climate objectives has become increasingly challenging. The COVID-19 pandemic in 2020–2022 and subsequent recovery have resulted in global supply shortages and inflation. These worsened following the start of Russia’s war of aggression against Ukraine, which resulted in historically high energy prices in the EU and increased food prices globally. High levels of inflation led to a cost-of-living crisis in the EU and undermined the international competitiveness of EU businesses – notably in energy-intensive sectors (ESABCC, 2023a). As a response to the increasing inflation, central banks increased interest rates and therefore the cost of capital, which further increased overall investment costs. Furthermore, the economic slowdown and various support measures in the context of the COVID-19 pandemic and the energy crisis have led to a surge in public debt. This constrains the available budgetary space of the various EU Member States, which are facing competition in allocating scarce public budgets between the climate transition, digitalisation, military expenditure and investments in social infrastructure. In parallel, the global race for green investments accelerated when the Biden administration adopted the US Inflation Reduction Act, which risks drawing investments in green technologies away from the EU. China’s dominance in key strategic low-carbon technologies (IEA, 2023j) also continues to threaten the long-term competitiveness and resilience of the EU. These developments have made the EU’s climate transition more challenging, and have made the need for a cost-effective, fair and just transition more important than ever.

On the other hand, these developments also provide strong arguments to accelerate the transition, notably to reduce the EU’s dependence on imported fossil fuels, to increase its strategic autonomy in important areas and to strengthen its position in the race towards the industries of the future. In line with these arguments, the European Commission took further steps to enhance the EU climate policy framework. In response to the energy crisis triggered by Russia’s aggression, it launched the REPowerEU plan (EC, 2022p), which aims to reduce the EU’s dependence on Russian fossil fuels, including by reducing energy demand and increasing the domestic renewable energy supply. In 2023, after the launch of the Inflation Reduction Act in the United States, the European Commission launched a Green Deal Industrial Plan to enhance the competitiveness of Europe’s net zero industry (EC, 2023u).

At the time of publication of this report, the legislative proposals under the Fit for 55 package have been adopted (with the exception of the revision of the ETD), and political attention is increasingly shifting towards implementation and the post-2030 climate policy framework. The European Climate Law requires the European Commission to put forward a legislative proposal for an intermediate 2040 reduction objective within 6 months after the first global stocktake, which implies in spring 2024 at the latest. To this end, it launched a public consultation on the 2040 target and related climate policy

framework in spring 2023 (EC, 2023z). The European Climate Law requires the European Commission's proposal to consider, among other things, the advice of the Advisory Board, which was published on 15 June 2023 and recommends a reduction objective of 90–95 % by 2040 (compared to 1990), in combination with increased efforts outside the EU to achieve a fair contribution towards the 1.5 °C objective and climate neutrality by 2050 (ESABCC, 2023b).

## 1.2 Objective of the report

The main objective of this report is to advise EU policymakers on how to make the EU policy framework fit for net zero, by flagging potential gaps in the current framework to be addressed in order to keep the 2030 and 2050 climate objectives within reach. Where sufficient scientific evidence is available, the report also puts forward policy recommendations to address these gaps. To serve its purpose, the report focuses on two key research questions.

- To what extent is the EU on track towards achieving its climate objectives? This step makes it possible to identify areas where progress is lagging, which could be an indication of a lack of sufficiently ambitious and effective policies, or policy inconsistencies.
- To what extent are EU policies consistent with the objectives of the European Climate Law, and where is there a need for policy change to ensure such consistency?

This report is an integral part of a broader effort of the Advisory Board to provide scientific advice on existing and proposed Union measures and their coherence with EU climate objectives, and to identify actions and opportunities needed to successfully achieve those objectives, as mandated by the European Climate Law. It provides a broad overview of progress and policy consistency, across sectors and cross-cutting issues. Specific topics raised in this report will be elaborated on in subsequent, in-depth reports, such as the dedicated report on carbon dioxide removal (CDR), which is planned for publication in 2024 (ESABCC, 2022a). The Advisory Board also intends to provide periodical updates of this report.

With this first edition of the report, the Advisory Board in particular wishes to provide input to the discussions on the post-2030 EU climate policy framework, which are expected to accelerate in the after the publication of the European Commission's proposal for a 2040 GHG emission reduction objective. It is also intended as an input for new EU legislators, including the new European Commission, who will come into office after the 2024 European elections.

There are existing reports that assess progress towards the EU climate and energy objectives, including the EEA's annual Trends and Projections reports (EEA, 2023p) and the European Commission's annual Climate Action Progress reports (EC, 2023ax). For the latter, the scope of the 2023 edition was expanded to meet the requirements of the European Climate Law, which mandates the European Commission to, by 30 September 2023 and every 5 years thereafter:

- assess the collective progress made by all Member States towards the achievement of the 2050 climate neutrality objective;
- review the consistency of Union measures with that objective;
- assess the consistency of national measures – those that are identified as relevant to the achievement of the 2050 climate neutrality objective – with that objective.

Although the 2023 Climate Action Progress report does include highly relevant information on progress towards climate neutrality at both the EU and national levels, as well as recent policy developments, it does not include a systematic assessment of the consistency of EU policies with the objectives of the

European Climate Law <sup>(1)</sup>. With the present report, the Advisory Board wishes to complement the reports by the EEA and the European Commission, by providing its own, independent assessment.

### 1.3 Scope of the report

This first edition of the report focuses on progress towards and policy consistency with the climate neutrality objective for 2050, with at least 55 % GHG emission reduction as a first milestone. Where possible (through availability and comparability of data), the assessment will also consider progress required by 2040, based on the Advisory Board's advice on the 2040 reduction objective.

The assessment will cover all major GHGs –CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O and fluorinated gases (F-gases) – and all major emitting sectors of the EU economy, including energy systems, industry, transport (including international bunker fuels), buildings, agriculture and the LULUCF sector. The waste sector is not treated as a separate sector, but the consistency of waste policies is included under the industrial chapter in the context of the circular economy. Technological emission removals are not covered in this edition of the report but will be covered in a dedicated report on CDR in early 2024. In addition to this sectoral perspective, the report covers several cross-cutting issues, including carbon pricing, a fair and just transition, public engagement, finance and investments, innovation, governance, labour, skills and capacity building. The assessment in this report focuses on progress and policy consistency at the EU level and does not provide a detailed assessment of specific developments within the different Member States of the EU.

Climate adaptation, although an integral part of the European Climate Law, is not covered by this first edition of the report. The Advisory Board intends to publish a dedicated report on progress towards and policy consistency with the EU's climate adaptation objectives in the future.

The Advisory Board intends to broaden and deepen the scope of its assessment in subsequent updates of this report.

### 1.4 Outline

The report is structured as follows. Chapter 2 describes the underlying methodology that was used for the assessment. Chapter 3 provides a short overview of overall progress towards the EU's climate mitigation objectives. Chapters 4 to 9 describe progress towards and policy consistency with the climate objectives in each of the major emitting sectors, namely energy supply (Chapter 4), industry (Chapter 5), transport (Chapter 6), buildings (Chapter 7), agriculture (Chapter 8) and the LULUCF sector (Chapter 9). Chapters 10 to 14 cover cross-cutting issues including pricing GHG emissions and rewarding removals (Chapter 10), the need for a whole-of-society approach (which covers a fair and just transition and public engagement; Chapter 11), finance and investments (Chapter 12), innovation (Chapter 13), climate governance (Chapter 14) and labour, skills and capacity-building (Chapter 15).

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<sup>(1)</sup> The report states that 'for the first time this year this report assesses progress under the European Climate Law, including the collective progress made by Member States towards the EU's goal to achieve climate-neutrality by 2050', without referring to the issue of policy consistency. The report does acknowledge in general terms that there is scope to further improve the consistency of EU policies with climate objectives, and briefly refers to the updated better regulation instruments. However, it does not include a systematic overview of the consistency of existing EU policies with these objectives.





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