Delivering Europe's 2040 Climate Target: Ambition, Flexibility, and Coherent Policy for a Climate-Neutral Future

Eurelectric response to consultation

August 2025

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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Generation and Environment Committee
WG Climate Change and Decarbonisation

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The European Commission’s announcement of the proposed 90% net greenhouse gas emissions reduction target for 2040 is a strategic milestone on the road to climate neutrality by 2050. It is a vital chance to boost Europe's climate leadership, energy security, and industrial competitiveness by signalling investors to pursue the clean energy transition.

But ambition must be matched with action. Success of EU climate policy depends on whether Europe can match this ambitious target with sufficient funding and a coherent, practical, technology-neutral and similarly ambitious policy framework — one that unlocks the right investment signals, enables all sectors to contribute, and ensures no one is left behind in the process.

Europe’s dependence on imported fossil fuels has a significant price tag, drying out the public coffers. This underscores the urgency of pursuing cost-effective, scalable, and future-proof solutions. The electrification of end uses — from transport and heating to industrial processes — offers a concrete pathway to deliver not only on Europe’s decarbonisation goals but also on its competitiveness and energy security ambitions.

Electrification, powered by clean, domestically produced electricity, reduces reliance on imported fossil fuels, cuts emissions at scale, and supports new industrial value chains. Investments in net zero[1] sources of electricity generation, grids, storage, industrial, buildings and transport electrification need to be made today, with a clear understanding of the policy environment that will exist tomorrow. Long-term investment certainty is necessary for the industries and infrastructure projects that require decades of planning and financing.

An ambitious 2040 target sets the course and helps identifying the policy and investment gap between the 2030 climate package and the 2050 net zero goal, providing clarity for business and policymakers alike. The implementation of the Fit-for-55% at national level remains a key priority, while planning and permitting must be streamlined to meet rising electricity demand and support industrial transformation.

At the same time, this target reinforces Europe’s global climate and industrial leadership. By committing to decisive action now and over the next two decades, the EU positions itself as an early, large-scale market for clean technologies. This leadership matters — not only for global climate diplomacy but also for attracting investment, securing net-zero industrial value chains, and setting international standards in areas like carbon markets, carbon removals and sectoral decarbonisation. Global action is key to achieving the Paris Agreement goal of limiting temperature increases to 1.5 degrees Celsius. Thus, the EU must be a role model, driving increased climate protection outside its borders and preventing carbon leakage.

[1] Net-zero sources of electricity generation refer to those technologies covered by the Net-Zero Industry Act

Key enablers are

1. Fostering a collaborative approach where all sectors of the economy converge towards a common goal

At a macro level, the target must reflect a balanced mitigation effort across transport, buildings, industry, and agriculture, ensuring that each sector assumes its share of responsibility. The power sector is committed to full decarbonisation well before 2050 and expects the EU's electricity generation mix to be carbon-neutral around 2040. A robust EU-level governance framework will be essential to coordinate efforts across Member States and ensure consistent implementation. The introduction of an electrification indicator and Key Performance Indicators (KPIs) in the National Energy and Climate Plans (NECPs) is key to provide visibility for investments in the power sector.

The ability to transition to a deeply flexible, decarbonised, and resilient energy system is a strategic milestone for the Climate Law. As the share of variable renewable generation rises sharply in the coming years, so too will the need for flexibility — in both the short and long term. This means scaling up storage technologies, from batteries to long-duration solutions, like pumped hydro and ensuring the availability of dispatchable generation such as nuclear and hydro power. Technological neutrality is a must to achieve the objective while keeping an optimal system approach. Optimising and minimising the overall cost of the energy system will be crucial for the competitiveness of the EU energy and to support the European economy.

Equally important will be smarter, more digitalised electricity grids capable of integrating millions of new renewable assets, electric vehicles, heat pumps, and industrial loads. Managing this new energy landscape will require dynamic system services, demand and supply-side flexibility, and swiftly reinforced transmission and distribution networks. Their planning and permitting procedures need to follow suit to enable the electrification of a competitive and decarbonised European industry, as well as new electricity demand rising from residential and service sectors.

To support the EU's energy transition and decarbonisation goals, the regulatory framework for electricity distribution needs to evolve in a way that better supports investment in every member state. A more forward-looking and investment-oriented approach is required—one that provides clarity on cost recognition, encourages flexibility in capital planning over the regulatory period, and aligns with long-term system needs. This includes creating conditions that facilitate access to financing, both from private investors and through EU funding instruments, while ensuring fair and predictable remuneration.

Public engagement and local community involvement will also be key to the success of the transition.

2. Enabling business innovation and flexibility to achieve targets in a cost-efficient way

The 2040 framework must provide flexibility in how objectives are achieved, allowing different sectors and member states to pursue the most cost-efficient decarbonisation pathways within a shared European ambition. The Emissions Trading Systems (EU ETS1 and 2) should be the key driver for emissions reductions in the most direct, flexible and cost-efficient manner, while, at the same time, a comprehensive and coherent EU climate strategy for 2040 must also address residual emissions that cannot be fully abated, particularly in hard-to-electrify sectors.

In this context, as well as for reaching the 2050 climate neutrality target, permanent carbon removals, with both nature-based and technological solutions, will play a role. To support this, clear and transparent policy frameworks are needed to account for their contributions and differentiate between permanent and non-permanent removals. Separate indicative targets for greenhouse gas emissions reductions and carbon removals, split between nature-based and technological, are needed in order to create certainty on delivering both emissions reductions and removals. At the same time, their use by companies should remain voluntary, while cautiously exploring the future use of permanent technological removals in compliance systems like the EU ETS — provided this can be done without distorting markets or undermining mitigation incentives or the environmental integrity of the EU ETS.

In addition, in view of reaching the climate neutrality target, the EU could test the potential use of high-quality international carbon credits. Nevertheless, a rigorous framework that ensures transparency, authenticity, accurate accounting and meaningful climate action is needed to avoid undermining credibility, weakening domestic reduction efforts and diverting resources away from the transition. Other forms of international cooperation, such as linking the EU ETS with other regional trading schemes that are compatible in terms of design can also provide flexibility in reaching the 2040 climate target.

Maintaining the mitigation hierarchy —emissions reductions first, and carbon removals second – is key to ensure integrity and efficiency in Europe's decarbonisation efforts.

3. Devising a cohesive industrial policy jointly delivering on decarbonisation, competitiveness and social fairness

Alongside the EU 2040 climate target, an ambitious, coherent industrial policy will also be necessary to defend Europe's competitiveness and foster leadership in the clean technology industries of the future, while supporting traditional industries to compete in global markets. The Climate Law and Clean Industrial Deal need to work hand in hand to accelerate industrial electrification, paving the way for public-private partnerships, innovative funding, and state aid schemes that avoid market distortions while electrifying hard-to-abate sectors. Cost-efficiency and market-driven instruments should continue to be the key principles and tools in the EU climate policy.

Well-designed redistributive mechanisms of revenues collected via carbon pricing will be essential to support the electrification and decarbonisation ambitions. To ensure no community is left behind, the Modernisation Fund should be maintained in low-income member states, while the Social Climate Fund should be allocated to protect vulnerable households. The newly established ETS 2 revenues and national ETS 1 revenues alongside other EU-level funds must be strategically channelled to support grid modernisation, industrial, transport and household electrification, and storage.

Funding mechanisms will play a pivotal role in de-risking the massive investments required for this transformation. Establishing tools like an Industrial Decarbonisation Bank can help catalyse private capital into the uptake of electrified clean technologies and infrastructure.

The 2040 climate target is key for Europe's long-term climate, industrial, and geopolitical strategy — but its success depends on the policies and financial frameworks that support it. Europe needs a coherent, investment-friendly, and socially fair policy framework that ensures business flexibility, delivers cost-effective decarbonisation, and directs more swiftly resources where they will have the greatest impact (i.e. need for simplification and acceleration of the allocation of EU funds).

More than just a number, the 2040 target is a tool to align policy, boost investment confidence, drive industrial innovation, and reconfirm the EU's leadership role in the global decarbonisation race. To succeed, it must be backed by decisive actions to implement energy markets regulations, modernise energy taxation and remove non-supply related taxes and levies, scale infrastructure, support electrification of transport, industry and buildings and carbon removals for hard-to-electrify sectors. With the right enablers, Europe can secure its clean energy future, protect industrial competitiveness, and lead the global transition to a climate-neutral economy.

Finally, the EU's climate ambition must be aligned with its external trade and diplomacy agenda. The 2040 target offers an opportunity to shape global standards, influence carbon border mechanisms, and foster international cooperation on clean technology supply chains. In the next step, Eurelectric calls upon the European Parliament and the Council to endorse the Commission's legislative proposal on revising the EU Climate Law to enshrine the 2040 climate ambition. This is an important step in informing the EU's updated Nationally Determined Contribution (NDC) ahead of this year's COP30 summit in Brazil. The EU's target is vital to incentivise other countries outside EU to increase their climate protection ambitions (be it by reciprocity or acting as a role model).

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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