European Climate Neutrality Observatory

Summary for Policy-Makers:

State of EU progress to climate neutrality

Input to the EU policy cycle 2024-2029

July 2024

Key takeaways

ECNO's assessment unveils promising signs of progress for the EU's journey towards climate neutrality – in both indicators and policies. However, the transition needs to pick up pace. Progress is currently still too slow overall.

Key policy actions in the next EU cycle can accelerate the **transition to a competitive and just climate neutral Europe:**

- **Advance effective implementation of existing and recently agreed policies, especially at Member State level.**
- **Take targeted additional action to unlock enabling conditions to the transition where needed.**
- **Align finance with the transition and close the investment gap.**
- **Apply a people-centred approach to EU policy that can ensure a socially just transition that has public support.**

Tracking the transition to inform smart policy-making

The European Union (EU) has embarked on its journey to become climate neutral by 2050. This multi-generational project holds economic opportunities and competitive advantages, and promises a more prosperous, liveable, and resilient society. At the same time, the transition is of unprecedented scale. It implies considerable changes to current systems, which need to be anticipated and well-managed for the transition to be effective, fair, and acceptable to all.

The European Climate Neutrality Observatory (ECNO)'s 2nd comprehensive progress report provides targeted input to the work programme of the EU institutions for 2024-2029. ECNO's assessment has been designed to reveal the pace of the transition in detail – inside sectors and across them. It looks at specific objectives as well as enablers of the transition across 13 'building blocks' of a climate neutral society, using a set of 124 indicators. Data trends are combined with an assessment of up-to-date developments in EU policy, enabling ECNO to provide a robust progress assessment and identify key areas of action for the upcoming policy cycle.

Promising progress in data and policies

The transition to climate neutrality is unfolding in nearly every corner of the EU economy. Even though all **building blocks** remain in the same progress category as in the 2023 assessment (see also Figure 1), a look under the emissions curve reveals important and promising progress in individual **indicators** and in new and revised policies.

In this year's assessment, more than two thirds of the classified indicators are moving in the right direction, and many small-scale shifts are bubbling under the surface. Ten indicators were upgraded to a higher category while three slowed down (see also Figure 1).

EU climate **policy** has advanced significantly in many areas, most notably under the European Green Deal and the Fit for 55 package, as well as via crisis-response measures under REPowerEU. These initiatives include targeted actions for most sectors to move towards climate neutrality (e.g., electricity, mobility and industry) and also many new cross-cutting elements (e.g., in just transition and governance). These policy changes promise further progress in indicators over time. However, there are also contradictory signals. Faced with the energy crisis, for example, the EU and national governments adopted short-term measures that ran counter the transition, such as increased fossil fuel subsidies and investing in gas infrastructure. Furthermore, there are a few policy blind spots at EU level (e.g., regarding agrifood), where action is rather limited and key initiatives are yet to be adopted.

Overall, this means that while the transition is on its way, it needs to pick up speed to reach climate neutrality by 2050 at the latest.

Looking at progress within each of the building blocks, the following picture emerges:

EU climate **governance** is progressing at the required pace.

High-level management structures and institutions are being put in place so that decision-making can be aligned with net zero. However, national-level implementation of important governance tools is weak in several countries, which poses a threat to further progress, including in sectoral policies.

Clean technologies and **electricity** are almost on track.

In cleantech, **public funds for environmental and energy R&D** picked up speed, now moving only too slow instead of far too slow in last year's assessment. The Green Deal Industrial Plan, the Net Zero Industry Act, and the Critical Raw Materials Act provide a policy signal to investors that the EU is moving forward in ensuring a resilient supply chain for its cleantech ecosystem. While the pace of GHG reductions slowed in **electricity generation**, the **deployment of renewables** has accelerated – both indicators are now too slow. Promisingly, the shift to renewables in electricity generation is increasing and may start developing at the right speed soon. This is particularly the case after the adoption of the REPowerEU package. Moreover, the trajectory of allowances under the EU Emissions Trading System (EU ETS), which covers all power plants, is now set to reach zero by 2040, indicating a clear path to a climate neutral electricity system.

There are small yet important improvements in **just transition**, but overall progress in this building block remains too slow.

The transition to climate neutrality has generated more **jobs in renewable energy supply chains**. **Regional poverty** in coal and heavy-industry regions has fallen, positively supported by an overall rise in employment rates in those regions. However, progress on reducing **material deprivation** has slowed down due to the spike in fossil energy prices. The effect was less pronounced due to an increase in **public support for households**, but this support was disproportionately focused on short-term relief rather than long-term resilience. Fossil fuel subsidies tripled between 2021 and 2022, outpacing the growth in **support for energy efficiency purposes**, the share of which thus decreased. The EU's Social Climate Fund and the Just Transition Mechanism are two key instruments by which Europe-wide support will be provided for vulnerable households and regions reliant on carbon-intensive activities.

Progress is still far too slow in **industry**, **agrifood** and **external action**, but with some improvements compared to last year.

In industry, **GHG emissions** decreased at a higher rate, with the use of **clean energy carriers** and improvements in **industrial energy efficiency** picking up speed. Following the revision of the EU ETS free emission allowances to industry will be phased out, starting in 2026, when the Carbon Border Adjustment Mechanism (CBAM), designed to level the playing field vis-á-vis non-EU competitors, is set to take effect. Together with additional industry-related policies, these changes could significantly advance the transition to a climate neutral industrial base in Europe.

A faster reduction of **agricultural GHG emissions** can also be seen following cuts in fertiliser use; however, since the adoption of the Farm to Fork Strategy in 2020, much of the proposed policy action has stalled. Although the revised Common Agricultural Policy (CAP) intends to direct 40% of its budget towards providing 'climate-relevant' support, the EU has moved to loosen key environmental provisions under the CAP.

In the EU's external action, there was an increase in the EU's **official development assistance (ODA) allocated to climate action** in 2021. This is an improvement, but the proportion of ODA allocated to climate action is still far too low.

Progress is also still far too slow in **buildings** and **mobility**.

Both building blocks saw limited changes. Building **renovation rates**, for example, are far too slow. The same is true for the shift to **zero emission vehicle stocks** in mobility. The data also shows **road transport** even increasing, which is movement in the wrong direction. However, important policy decisions were taken under the Fit For 55 package, that could pave the way for future improvements. The introduction of a second emissions trading system (EU ETS2), for example, will extend carbon pricing to road transport and buildings as of 2026. Also, for transport, the adoption of more stringent emission performance standards means that only zero-emission passenger cars and vans will be sold as of 2035, while emissions from new heavy-duty vehicles will be substantially reduced through 2040. The EU also enhanced its energy efficiency and renewable energy targets across all energy-consuming sectors. Finally, the EU defined a zero-emission standard for new buildings, set improved minimum energy performance standards for non-residential buildings, and put more focus on renovating the least efficient residential buildings.

Progress is also still **far too slow** in **lifestyles**, and the EU remains poorly equipped regarding **adaptation** to climate change.

In lifestyles, there is some progress in habits and awareness with, e.g., an increasing number of EU citizens reporting to have personally taken action, and increased sales of plant-based food items, but no improvement in material and carbon footprints yet. The EU does not have an overall strategy targeting sustainable lifestyles, and existing policies are scattered and not all relevant issues are addressed. In adaptation, national policies offer hope, but there is no improvement thus far in countries' resilience, and losses from climate events keep increasing. There is also a notable lack of data in both building blocks.

Finance and **carbon dioxide removals** still move in the **wrong direction**.

Perhaps most alarmingly, as regards financing the transition, there were limited improvements in comparison to the 2023 assessment, and even some deteriorations putting further progress in other sectors at risk. Fossil fuel subsidies increased, and a substantial investment gap persists despite various EU programmes designed to stimulate private and public funding.

In carbon dioxide removals (CDR), the trend shows that natural sinks continue to decrease, though the decline is slower than in last year's assessment. For a climate neutral future, both natural and technical options need to improve significantly.

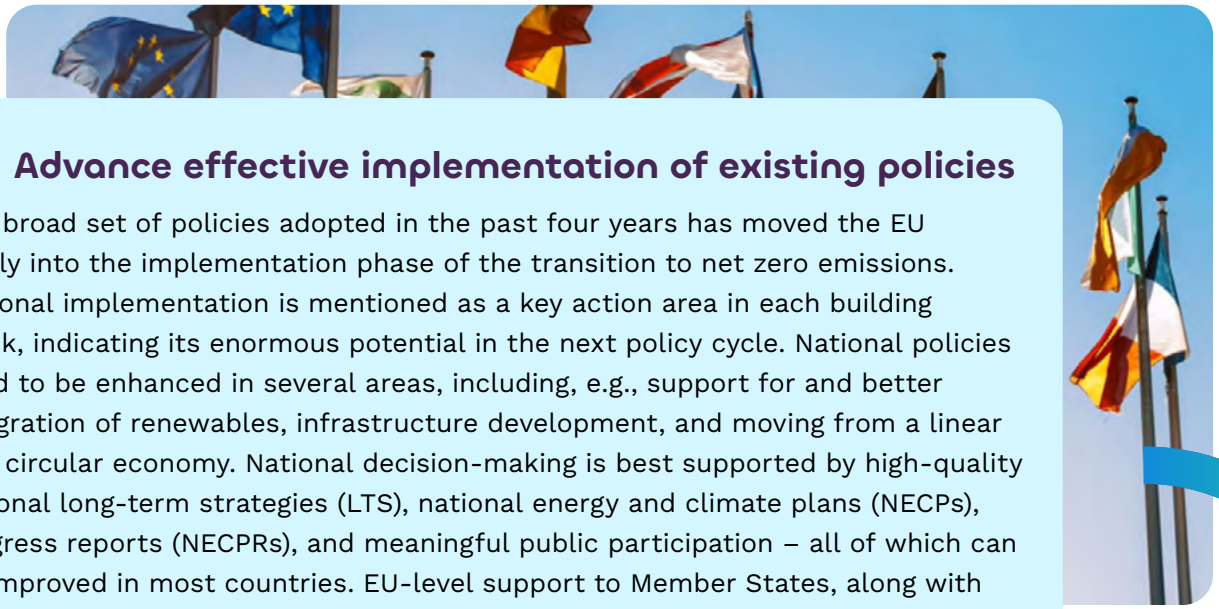
Figure 1: State of EU progress towards net zero: notable advancements but still too slow

Note: Small circles within building blocks show the progress category of each of the indicators, using the same colour-coding as for the overall building block classification. For indicators with two circles: Large circles show the progress classification of indicators this year and small circles the one from last year's progress assessment. Arrows indicate positive or negative changes in classification.

Source: ECNO (2024)

Actions for the EU policy cycle 2024-2029

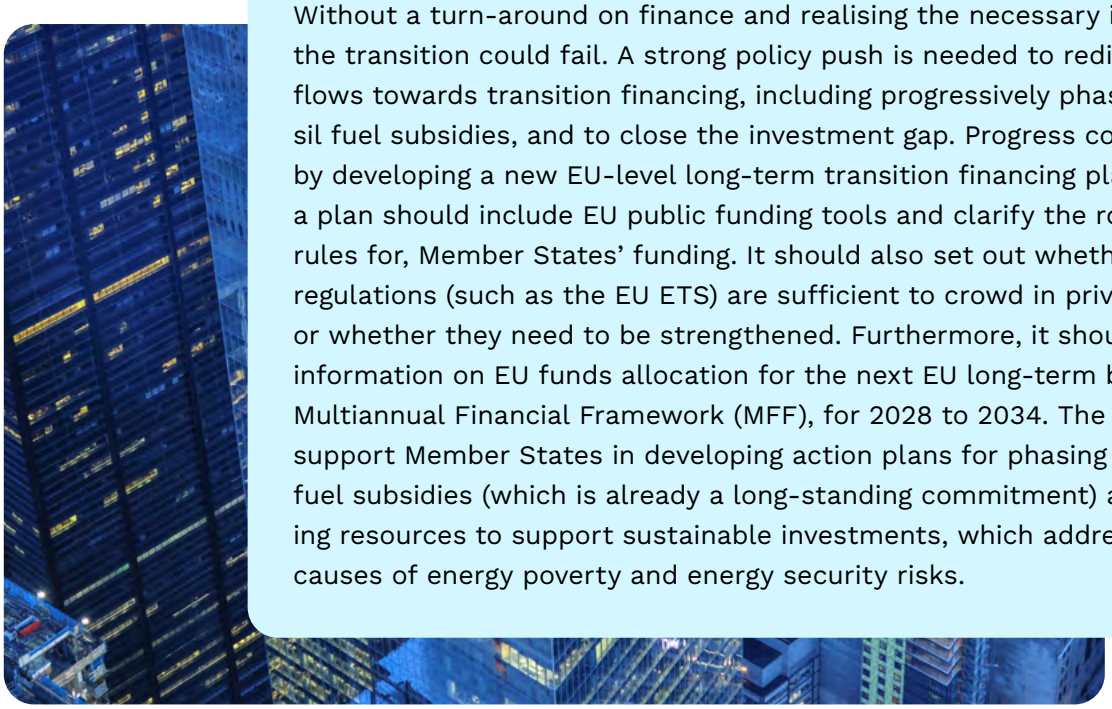
The 2024 ECNO assessment of the EU's progress towards climate neutrality reveals **10 key areas** where targeted policy actions are required in the legislative cycle 2024-2029 to get on track to net zero and a more competitive and just EU.



1 Advance effective implementation of existing policies

The broad set of policies adopted in the past four years has moved the EU firmly into the implementation phase of the transition to net zero emissions. National implementation is mentioned as a key action area in each building block, indicating its enormous potential in the next policy cycle. National policies need to be enhanced in several areas, including, e.g., support for and better integration of renewables, infrastructure development, and moving from a linear to a circular economy. National decision-making is best supported by high-quality national long-term strategies (LTS), national energy and climate plans (NECPs), progress reports (NECPRs), and meaningful public participation – all of which can be improved in most countries. EU-level support to Member States, along with further specification of the legal requirements and stricter follow-up to ensure adherence, would further facilitate national implementation.

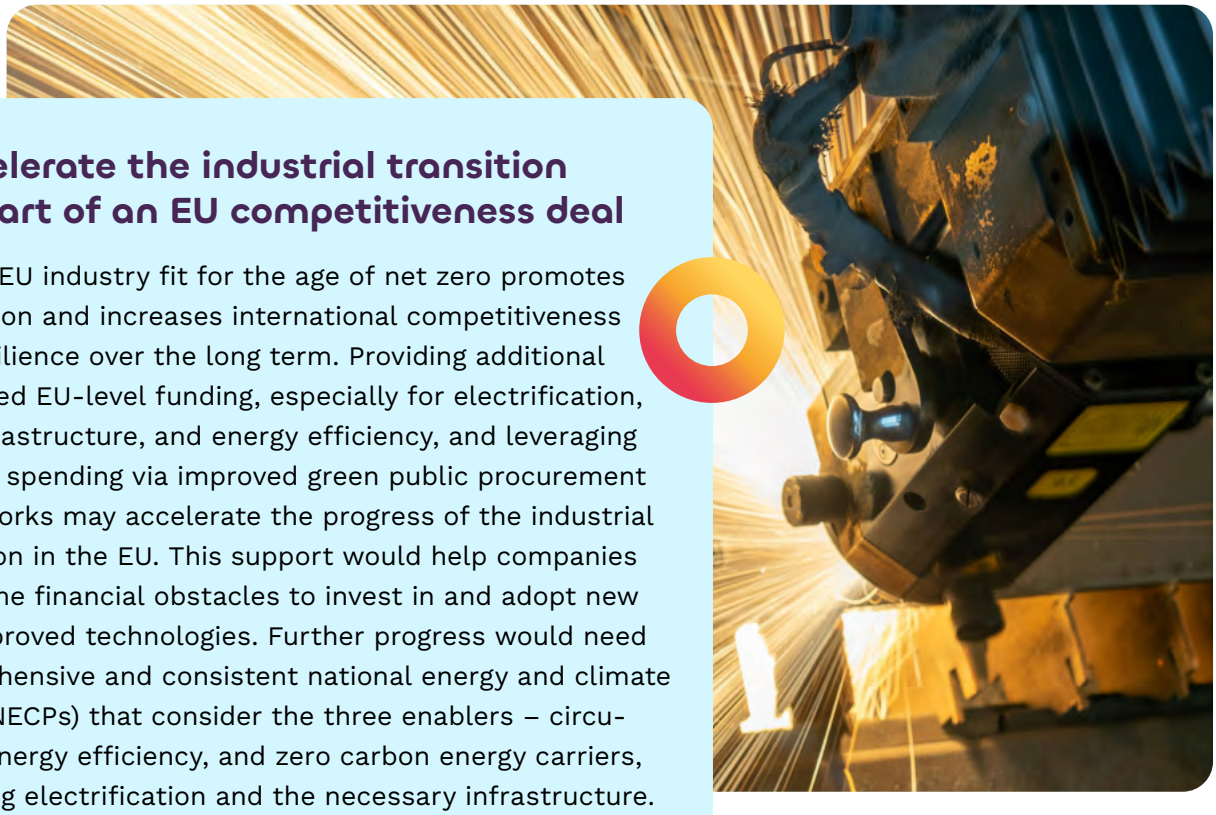
2 Get the finance right for the transition



Without a turn-around on finance and realising the necessary investments, the transition could fail. A strong policy push is needed to redirect financial flows towards transition financing, including progressively phasing out fossil fuel subsidies, and to close the investment gap. Progress could be made by developing a new EU-level long-term transition financing plan. Such a plan should include EU public funding tools and clarify the role of, and rules for, Member States' funding. It should also set out whether existing regulations (such as the EU ETS) are sufficient to crowd in private finance or whether they need to be strengthened. Furthermore, it should provide information on EU funds allocation for the next EU long-term budget, the Multiannual Financial Framework (MFF), for 2028 to 2034. The EU can also support Member States in developing action plans for phasing out fossil fuel subsidies (which is already a long-standing commitment) and shifting resources to support sustainable investments, which address the root causes of energy poverty and energy security risks.

3 Ensure a socially just and people-centred transition

EU citizens show strong support for climate action but also express concerns over an uncertain future. To maintain citizens' resolve, further progress is needed to ensure that they feel engaged in the process and that no one is left behind. A citizen-centric approach to decisions over the coming years could strengthen this dimension. Related actions would include developing job opportunities and creating adequate training programmes in relevant industries, as well as ensuring people have access to sustainable lifestyle options. Material deprivation and poverty can be better kept in check by moving from temporary protection instruments to structural measures that help manage distributional effects. Moreover, citizens should be given early and frequent opportunities to contribute to policy decisions. A critical starting point is improving national implementation of EU requirements, including public participation in climate policy planning and the establishment of permanent multi-level dialogues. All channels for engagement should be designed for impact with adequate political attention and follow-up.



4 Accelerate the industrial transition as part of an EU competitiveness deal

Making EU industry fit for the age of net zero promotes innovation and increases international competitiveness and resilience over the long term. Providing additional dedicated EU-level funding, especially for electrification, grid infrastructure, and energy efficiency, and leveraging existing spending via improved green public procurement frameworks may accelerate the progress of the industrial transition in the EU. This support would help companies overcome financial obstacles to invest in and adopt new and improved technologies. Further progress would need comprehensive and consistent national energy and climate plans (NECPs) that consider the three enablers – circularity, energy efficiency, and zero carbon energy carriers, including electrification and the necessary infrastructure.

5 Encourage efficiency, modal shifts and electrification in buildings and mobility

Mobility and buildings need dedicated additional policy action to increase progress. In buildings, the achievement of wide-spread deep renovation could be helped through compliance support and an enforcement system. For performance standards to be effective, accessible, and affordable, they should be integrated with supportive policy instruments, tailored to the needs of the target groups. An example are subsidies to address the financial barriers faced by low-income and vulnerable households, as well as rental units. In mobility, the EU can accelerate progress by targeting high-mileage corporate fleets, expanding the availability of and access to cross-border public transport and supporting Member States in their national zero-emission vehicle incentive schemes and in the corresponding infrastructure development. Progress towards managing motorised freight transport could be made by encouraging local, circular industry.

6 Ensure a predictable and just transition in agriculture

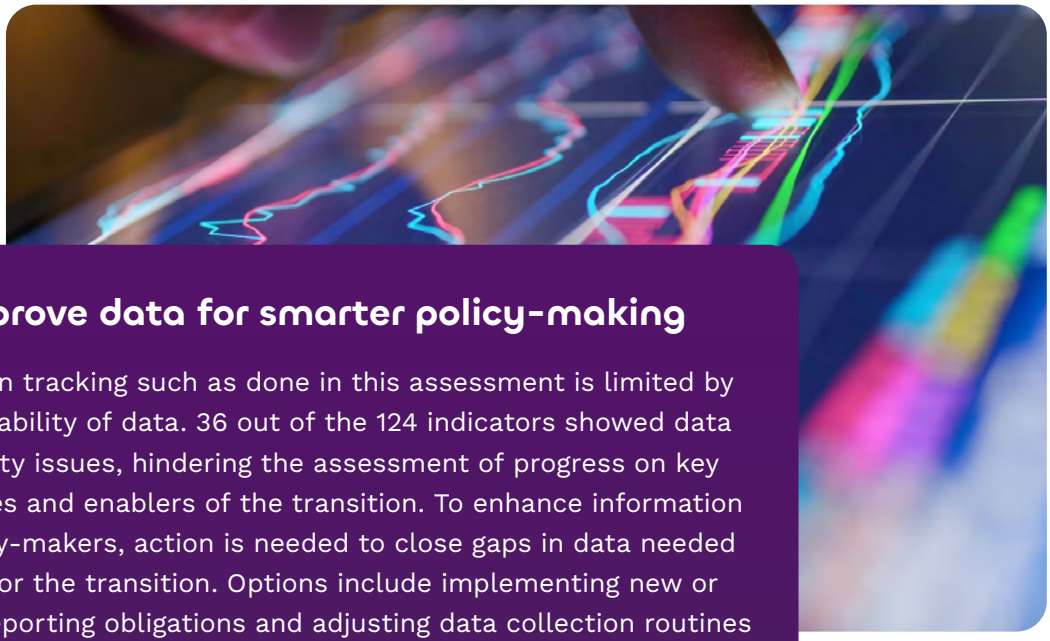
Across Europe, farmers expressed their concerns over the economic viability of their livelihoods in early 2024. At the same time, changes in current agricultural practices are essential to reaching climate neutrality. While farmers have started reorganising their businesses, a clear vision and reliable framework for the transition would further support their efforts. The Common Agricultural Policy (CAP) has the potential to shift public funds to incentivise low-emission, socially just, and resilient agriculture and to provide a predictable economic outlook for farmers. Standardised, stringent criteria for sustainable food procurement and labelling would support healthier, plant-based diets. Lastly, action can be taken to reduce food waste through stricter guidelines on responsible food business and marketing practices, acting on date marking, and mandating emission reductions from agrifood distributors and processors, while also engaging non-farming actors in the transition.

7 Invest in (natural) carbon dioxide removals urgently

Without Carbon Dioxide Removals (CDR), the EU cannot achieve climate neutrality – and current trends are worrying. There is an urgent need to further expand sustainable forest practices and promote restoration, reforestation, and sustainable management. Progress could be made by addressing the risks of fast-growing plantation forests, encouraging a shift away from monoculture towards near-natural forests with a greater mix in tree species, and promoting biodiversity and forests resilience. Any certified removals being used to account for residual emissions will have to be of high integrity to ensure permanence. To enable the deployment of sustainable technical CDR post-2030, progress should be made on research, development, and demonstration with a greater focus to be placed on full lifecycle impacts.

8 Enhance global climate action through international climate finance and diplomacy

Global action is an essential part of successful climate policy and is also in the EU's interest. The EU could advance its own contribution through effectively implementing existing partnerships, promoting sustainable trade practices, and supporting stringent, transparent, equitable, and effective environmental standards. Looking ahead, the EU's foreign and trade policy could centre on the global transformation. A key dimension is also the provision of international climate finance that corresponds to the EU's fair share. To reinforce its commitment to financing clean projects abroad, progress could be made by transforming the European Investment Bank into a true 'climate bank' – phasing out fossil-fuel financing and supporting renewable energy, energy efficiency, and climate resilience.



9 Improve data for smarter policy-making

Transition tracking such as done in this assessment is limited by the availability of data. 36 out of the 124 indicators showed data availability issues, hindering the assessment of progress on key objectives and enablers of the transition. To enhance information for policy-makers, action is needed to close gaps in data needed to monitor the transition. Options include implementing new or better reporting obligations and adjusting data collection routines to improve the efficiency of processes and spending. Streamlining existing reporting processes could help simplify processes, reduce the administrative effort, and free up capacity.

10 Establish an official EU-wide transition monitoring

While ECNO's assessment provides detailed input for policy-makers, it cannot replace regular and sufficiently comprehensive EU-wide transition monitoring carried out by the EU institutions directly. Article 6 (3) of the EU Climate Law obliges the EC to act on insights from a monitoring of progress towards climate neutrality, but the current system cannot deliver the necessary information. By integrating existing planning, monitoring, and reporting activities, a revised EU transition monitoring framework could lead to greater comparability, facilitate evaluations, and increase transparency, allowing for decisions based on a unified set of facts. It could reduce overall effort and administrative burden for Member States and EU institutions alike. The upcoming review and potential revisions of the EU Climate Law and the Governance Regulation may offer an opening for this.

About ECNO

The European Climate Neutrality Observatory (ECNO) aims to help the EU achieve climate neutrality by providing scientifically rigorous analysis of economy-wide progress and an impartial check on EU climate policy processes.

ECNO wants to inform a broader dialogue on how the EU can best track progress and what actions could be taken on the basis of its analysis. ECNO invites feedback from all interested parties on both methodology and results.

If you have any questions or comments, please contact the ECNO team:
info@climateobservatory.eu

This is a summary of the technical report '2024 Flagship Report: State of EU progress to climate neutrality – An indicator-based assessment across 13 building blocks for a climate neutral future'.

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