



IIGCC report: Ambitious EU 2030 action essential for achieving net zero emissions

IIGCC
The Institutional Investors
Group on Climate Change

Introduction

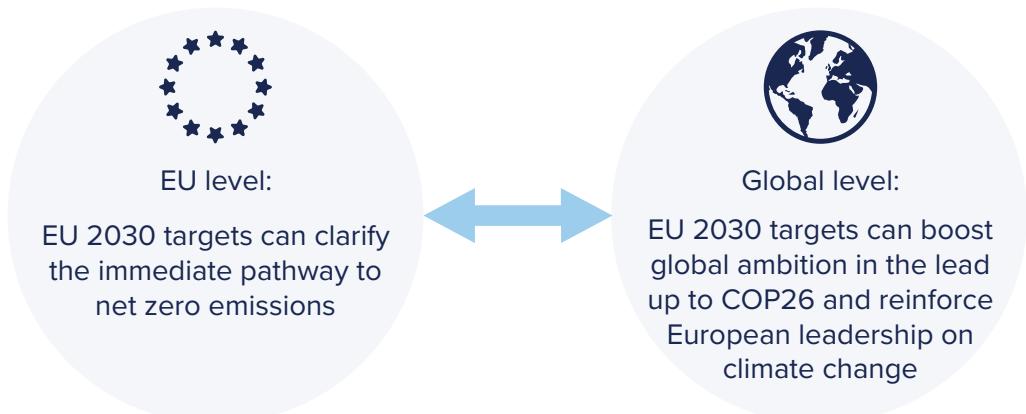
Investors welcome the European Green Deal and its objective of making Europe's economy climate neutral by 2050. Institutional investors are invested in long-term holdings across all economic sectors and geographies, making them uniquely exposed to systemic global challenges such as climate change. This means investors take a long-term view of value and returns and are invested, both figuratively and literally, in the full implementation of the Paris Agreement. This paper sets out three recommendations from investors for the EU's 2030 targets.

The next 5-10 years are crucial for limiting global temperature rise to 1.5 °C and aligning economies with net zero emissions. Near-term action is needed to avoid further carbon lock-in of assets and ensure an orderly transition to net zero. At both the EU and global levels, ambitious targets which seek to reduce emissions by 2030, and policies which support these outcomes, are important from an investor perspective.

At the EU level, the revision of the EU's 2030 targets provides an opportunity to provide concrete, near-term market signals that investors and companies can use to align their operations and decision-making with net zero. Ambitious 2030 targets may require addressing challenging political economy issues associated with net zero emissions. However, the sooner these issues are addressed, the sooner the investment pathway to net zero emissions will be clarified.

At the global level, the EU's revised 2030 targets come at a key time to influence global ambition, since countries are due to submit their updated pledges under the Paris Agreement ahead of the 26th United Nations Climate Change Conference of the Parties (COP26). These pledges – Nationally Determined Contributions (NDCs) – will update countries' climate change commitments, covering the period to 2030. Currently, very few countries have 2030 targets aligned with limiting global warming to 1.5 °C. Ambitious EU 2030 targets can encourage similar near-term ambition in other countries' NDCs and support a global shift towards net zero emissions.

Figure 1: Importance of ambitious EU 2030 climate and energy targets



Investors call on EU policymakers to take ambitious 2030 action including:

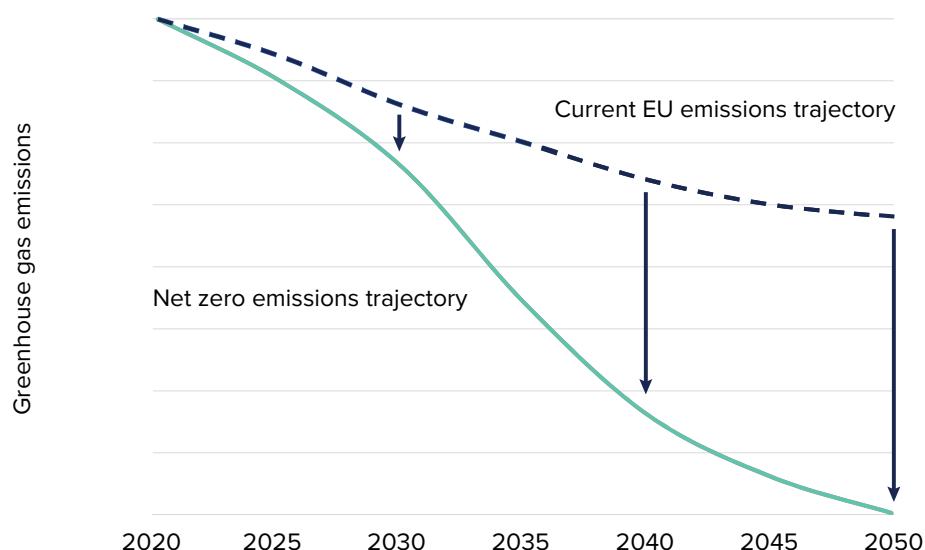
1. Set ambitious EU 2030 targets in line with net zero emissions by 2050
2. Provide clarity on the net zero transition pathway for each sector
3. Support policymaker and investor dialogue to ensure investment needs for the European Green Deal are met

The challenge: shifting EU emissions trajectory from 60% reductions by 2050 to net zero

The European Green Deal sets a target of net zero emissions by 2050. However, emission projections indicate the EU is currently on track for only a 60% reduction in greenhouse gas emissions from 1990 levels by 2050.

The current 2030 target was set in 2014, before the net zero 2050 target was agreed in 2019. While overachievement of the current 2030 target is likely (45% reductions are anticipated from 1990 levels compared to the current 2030 target of 40%), this rate of progress will not be enough to reach net zero by 2050. Hence, additional ambition and action is needed to 2030 (and beyond) to put the EU on a net zero emissions pathway.

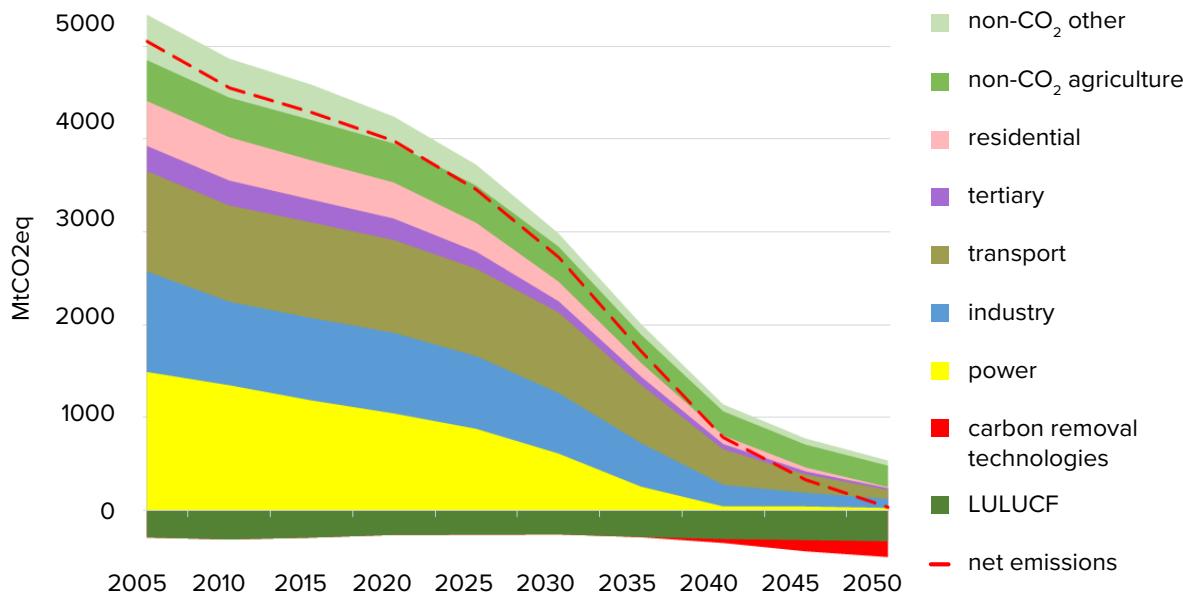
Figure 2: Illustrative gap between current EU emissions trajectory and 2050 net zero target



As set out in the European Commission's '*A Clean Planet for All*' Communication, achieving net zero emissions by 2050 will require combining and maximising all emission reduction options, with emissions nearly eliminated from all sectors by 2050 (except some remaining emissions from mostly agriculture)¹. Land is expected to provide the majority of offsets for achieving net zero. The use of land for offsetting will need to increase but isn't expected to expand greatly from current levels. This is because land will also need to provide sufficient food, feed and fibres as well as support energy and other sectors, with climate change potentially impacting global land use¹.



Figure 3: EU emissions reductions scenario to achieve net zero emissions by 2050^{1,2}



To put Europe on a net zero pathway for 2050, all sectors need to achieve significant emission reductions by 2030. Without a substantial increase in 2030 ambition, over half of the EU's 1990 economy-wide emissions would need to be eliminated in the two decades after 2030. This would be a substantially faster reduction in annual emissions than previously achieved³. The trajectory for the last two decades before 2050 would become very steep; increased ambition to 2030 would support a more balanced pathway between the decades and a smoother transition to net zero emissions.

To achieve these emission reductions, at least €1 trillion in sustainable investments will need to be mobilised by 2030, with significant contributions required from the private sector and national budgets⁴. As one example, decarbonising the EU economy will require around 2% of current levels of GDP invested in the energy system (including related infrastructure) to be increased to 2.8% (or around €520–575 billion annually)¹. Institutional investors are able to provide an important supply of stable, long-term capital to support these investment needs.

Investors are taking action to align with net zero emissions

Investors are taking proactive action to drive the transition to net zero emissions including aligning investment portfolios to net zero emissions, engaging with companies on net zero aligned business strategies to net zero emissions and increasing financial flows to green investments.

For example, more than 70 global investors with over US\$16 trillion of assets under management are participating in IIGCC's Paris Aligned Investment Initiative⁵. This seeks to build consensus around what it means to align investment portfolios with the goals of the Paris Agreement. A first output of the initiative is a Net Zero Investment Framework which provides a comprehensive approach to enable both asset owners and asset managers to become net zero investors.

Through Climate Action 100+⁶ (CA100+), more than 450 investors with over US\$40 trillion in assets are actively engaged as shareholders to ensure the world's largest corporate greenhouse gas emitters take ambitious action on climate change. The initiative, co-founded by IIGCC, has seen some world first successes in the last two years in terms of net zero commitments from companies in the oil and gas, cement, automobile and shipping sectors, among others⁷.

Through the Climate Investment Coalition⁸, investors are working to unlock private capital towards green investments, building on the commitment made by Danish pension funds in 2019 to direct US\$50 billion towards green investments between 2020 and 2030.

Recommendation 1: Set ambitious EU 2030 targets in line with net zero emissions by 2050

EU greenhouse gas emissions reduction target of at least 55%

A high level of ambition is needed for the EU's 2030 greenhouse gas emissions reduction target, with at least 55% reductions required to limit global warming to 1.5 °C.

From a global perspective, the Intergovernmental Panel on Climate Change (IPCC) reports that global CO₂ emissions need to be reduced 45% by 2030 compared to 2010 levels to limit global warming to 1.5 °C⁹. Scaling this trend to greenhouse gas emissions (i.e. both CO₂ and non-CO₂ emissions) at the EU level would mean a 54% reduction of all greenhouse gases by 2030 compared to 1990 levels¹⁰. However, if global effort sharing issues are taken into account, a reduction of well above 55% would be needed by 2030, since the EU has nearly already used its share of the global carbon budget and would need to reach net zero emissions well before 2050^{10, 11}.

From an EU perspective, a high level of ambition for 2030 can support a more orderly transition to net zero emissions and better distribution of efforts between now and 2050. It may also support a less costly transition by encouraging innovation to happen sooner¹², avoiding carbon intensive lock-in and reducing the potential for stranded assets. A 55% reduction in emissions by 2030 would be possible by upscaling mature technologies and accelerating the market development of others; further reductions above 55% are possible with additional technology-based efforts and/or combining these with lifestyle changes (e.g. modes of travel, fleets of sharing vehicles, dietary changes, consumption and production patterns)¹².

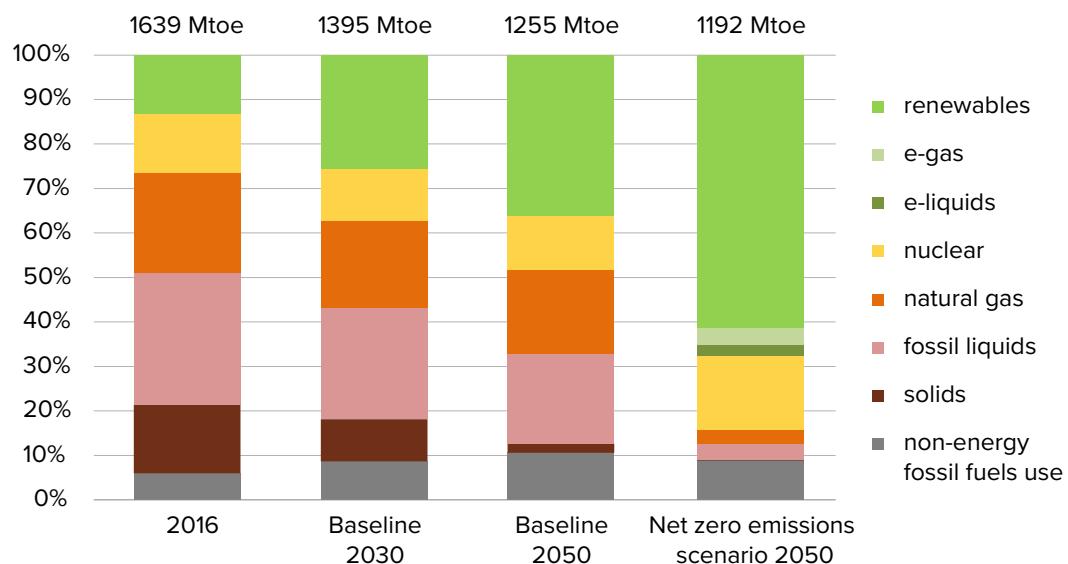


EU renewables target of over 40%

A renewables target of over 40% in final energy consumption by 2030 (an increase from the current target of 32%) is needed to support the extremely high renewables penetration rates required to achieve net zero emissions by 2050.

Figure 4 illustrates that without additional efforts, the EU is on track for a relatively incremental increase in renewables to 2030 and 2050, and not the step change needed to align with net zero emissions.

Figure 4: EU projected energy use for 2030 and 2050, compared to energy use aligned with net zero emissions by 2050¹



EU energy efficiency target of over 40%

An energy efficiency target of over 40% in primary and final energy consumption by 2030 (an increase from the current target of 32.5%) is needed since an incremental increase will not align to zero emissions by 2050. Commission and expert analysis shows that maximising energy efficiency will be one of the key measures to achieve net zero emissions (alongside maximising renewables and low carbon transport)^{1, 11}. While this will be challenging to achieve, the energy efficiency target needs to be increased to an ambitious level since it is part of existing policies that together fall short of achieving net zero emissions by 2050.



Recommendation 2: Provide clarity on the net zero transition pathway for each sector

To achieve the goals of the Paris Agreement, it is understood that almost all economic activities, companies and assets will need to transition, with emissions nearly eliminated by 2050. However, to achieve this long-term objective, clarity is needed from policymakers regarding the net zero transition pathway for each sector, with concrete, near-term, sector-specific market signals that can adequately guide investors' decision-making.

This sector-level clarity would support a harmonised understanding of the net zero transition pathway by investors, companies and policymakers and, in turn, speed up the deployment of capital aligned with net zero. This could be set out within sector roadmaps (or otherwise), and would include:

- the emission reduction pathway per sector pre-2030 and pre-2040 that, in aggregate, achieves net zero emissions across the economy especially for carbon intensive sectors such as energy, transport and industry
- the timetable for key transition milestones such as phasing out fossil fuels, except for clear exceptions where technology solutions do not exist, and phasing out direct and indirect fossil fuel subsidies
- the anticipated timetable for key infrastructure and technology changes to transition sectors to net zero, ideally highlighting the scale of associated investment opportunity.

Investors would be able to utilise these sector transition pathways, for example, to set targets for portfolio emission reductions consistent with these net zero pathways, analyse companies' alignment with net zero, engage with companies regarding their transition planning, evaluate the potential for stranded assets, assess the need for asset write-downs and inform timetables for potential divestment.

Implicit to these pathways would be both enhanced cross-economy policy measures (such as a strengthened EU Emissions Trading System) and sector-specific policy measures (such as strengthened building performance standards) to support their achievement.

Without this clarity and leadership from policymakers on the net zero transition pathway for each sector, there is unlikely to be the strength of market signal needed to mobilise investors and attract the high levels of private finance required to fully fund the European Green Deal. In combination with enhanced policies, these sectoral transition pathways can substantially accelerate the mobilisation of private finance towards a net zero future. It is understood that specifying ambitious sectoral transition pathways may mean addressing difficult political economy issues; however, the sooner this is able to be done, the sooner the investment pathway to net zero emissions will be clarified.

Recommendation 3: Support policymaker and investor dialogue to ensure investment needs for the European Green Deal are met

Institutional investors have very large pools of long-term capital to deploy and, since they invest economy-wide, have the potential to support transitioning across the economy. Investors would welcome further dialogue with policymakers to implement the above recommendations, build a shared understanding of investment-grade climate policies and projects¹³ and ensure investment needs for the European Green Deal are met.

Endnotes

- 1 A Clean Planet for All, November 2018, European Commission
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<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52019DC0559&from=DA>
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- 4 A Sustainable Europe Investment Plan, January 2020, European Commission
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- 6 For more information see
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About IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is a network of over 250 members overseeing more than €33 trillion in assets globally, whose members take a pro-active approach to managing the risks and opportunities related to climate change. Our mission is to mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policy makers and fellow investors. In particular, we recognise that low carbon and climate-resilient technologies, markets and business models present significant investment opportunities which can promote economic growth in Europe and boost job creation, energy import savings, energy security, and citizens' health and wellbeing. IIGCC is also a founding member of The Investor Agenda, a platform developed for the global investor community to accelerate and scale up the actions that are critical to tackling climate change and achieving the Paris Agreement goals.

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