Employers entrusted to deliver
Sustainability Growth Innovation

Opinion

The EU 2040 Climate Targets

An SGI's perspective to provide a truly sustainable service of general interest

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Executive Summary

- SGI Europe calls for a **climate 2040 target of a minimum of 80% emissions reduction**, which implies keeping the path defined by the EU Green Deal. The EU should accelerate its decarbonisation efforts in each sector where economically and socially feasible.

- **Reducing the EU's gross emissions shall remain the priority.** Carbon offsets will be needed in specific cases, but a determined framework must ensure their efficient use.

- A well-balanced climate implementation plan requires careful examination of the **economic, social and environmental dimensions** and placing them all at the heart of EU decision-making. It will be essential to take these three dimensions into account to reach climate neutrality by 2050.

- Over the next decade, SGI Europe calls for providing adequate means to reach the climate and energy targets and for the EU to succeed in the green transition. In a competitive geopolitical context and the challenges on raw materials, **EU enterprises need investments, long-term visibility, and coherence among EU legislation.**

- **Social partners have to be involved in the coming mid-term climate talks in devising national green skills plans** and must have an active role in ensuring a just transition.

- SGI Europe underlines the importance that European legislations should be **technology neutral to enable more industries to contribute to the climate objective.**

- **The circular economy is a key missing piece of the EU Green Deal Industrial strategy** and can enable a more efficient and sustainable element to its plan. SGIs are key players in driving this new economic strategy and will pave the way for other economic actors to follow.

- The most efficient way to deal with residual waste in a sustainable and beneficial manner is via **Waste-to-Energy (WtE), and this approach can become an essential piece towards energy independence.**

- **A qualified building workforce is essential to ensure the high levels of renovation** required to decarbonise the building sector and accelerate the rate of building renovation in Europe to **implement the political ambitions for 2040 practically.**

- SGI Europe supports the anticipation of the **EU-ETS beyond 2030**, linked to the need for visibility on the future European carbon budget and calls for coordination with other instruments such as the ESR. Defining **a carbon budget for the period up to 2050 will give a strong signal.**

- To achieve climate neutrality, **transport-related emissions must be reduced by 80% by 2040 and 90% by 2050. A modal shift towards rail freight and public passenger transport requires ambitious goals** with consistent control measures to create incentives and programmes for the expansion of multimodal transport offers.

- SGI Europe calls upon the European institutions and Member States to **put the transversal issue of water quality and availability in Europe on top of the EU Agenda for 2024-2029 and put forward an "EU Blue Deal".**

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Introduction

SGI Europe is the European association representing employers from the public services and services of general interest (SGIs). SGIs and public undertakings are essential to the functioning of society on a cross-sectoral level, including in the energy, transport, housing, water, waste management, telecommunication, education, and health sectors.

SGI Europe welcomes the continuity and coherence of the European Commission to start the mid-term evaluation of the EU climate targets, and ensure to reach climate neutrality by 2050, as enshrined in the European Climate Law. For SGI providers, it will be vital to continue placing the climate policy at the top of the EU agenda and safeguard the transition towards a sustainable and resilient economy, promoting circular economy, protecting the environment, and ensuring a just and socially acceptable climate transition.

In this context of the European Union's 2040 climate targets, SGIs will play a crucial role in shaping and implementing policies to reduce greenhouse gas emissions and mitigate the effects of climate change. Most importantly, **SGI Europe must remain a key player in the climate talks via its role as EU Social Partner and ensure that the social, economic and environmental dimensions of sustainable development are balanced at EU level**. Leaving any of these three behind will unbalance the socioeconomic development of this climate transition.

With the EU Climate Law as a legally binding target of net zero greenhouse gas emissions by 2050, **we now need to unlock the means to achieve it. In a competitive geopolitical context and the challenges on raw materials, EU enterprises need investments, long-term visibility, and coherence among EU legislation.**

SGI Europe's role in the Climate Transition: Providing a truly sustainable Service of General Interest

Due to their proximity to citizens, economic actors and the environment, public services and SGIs have, for a long time now, understood their key role: **Providing their services in the most sustainable way possible, both for the present and for future generations.**

They have always responded to political and environmental crises in a universal and inclusive way, by understanding the needs of economic actors, grasping the essential changes linked to the evolution of new technologies as well as the political and civil behaviours, whilst respecting the environmental limits over decades. A well-balanced strategy to implement climate policy requires carefully examining the **economic, social and environmental dimensions** and placing them at the heart of policymaking.
It will be essential to consider these three dimensions to reach climate neutrality by 2050.

Public undertakings understand their role as actors to reach climate neutrality and will be an indispensable part in the success of the Climate Transition

SGIs can contribute to the achievement of the EU climate mid-term targets for 2040 on the following objectives:

- **Decarbonisation**: SGIs can help reduce emissions by promoting the use of renewable and low-carbon energy, improving energy efficiency, and implementing sustainable mobility solutions. For example, public transport services can shift to low-emission or electric vehicles and enable the modal shift of freight and public passenger traffic by rail and road. These measures are already making a significant contribution to climate protection, regardless of the driving technology used. At the same time, healthcare facilities and public buildings can implement energy-efficient building designs and renewable and all low carbon energy systems, where feasible.

- **Adaptation**: SGIs can help communities adapt to the impacts of climate change, such as extreme weather events, by providing essential services and infrastructure for energy and water. Social services and local and regional authorities can support vulnerable communities in preparing for and recovering from climate-related disasters, whilst the water sector is already heavily investing in research and innovations to adapt to climate change and ensure the continuity of water supply.

- **Education and social awareness**: SGIs play a key role in educating citizens about the impacts of climate change and the importance of taking action. For example, schools and universities can integrate climate change into their curricula, while public information campaigns can raise awareness about sustainable lifestyles and practices in recycling in the correct way.

The climate crisis is becoming increasingly challenging on the social and economic levels. The most vulnerable are particularly affected by the consequences of overheating, floods and extreme storms. At the same time, city dwellers increasingly suffer from energy poverty and housing shortages. Urban authorities must therefore be placed in a position to make the necessary investments in a green and fair city and urban areas in the general interest.

SGI Europe, with its members, can develop sustainable solutions that work locally, scale up those tools, share practices and set examples on the European scale.

SGIs in times of scarcity: Anticipating the water crisis

SGIs are indispensable as providers for essential infrastructures, such as energy, water supply, and ensure access to affordable housing and transportation, safe waste management and access to healthcare. Considering that SGIs are essential to the EU competitiveness and economic eco-system[1], SGIs and public services (and the resources needed to continue being fully operational) must be placed at the top of EU priorities.

In light of the energy crisis and the COVID-19 pandemic, the EU faced acute challenges, including risks of shortages of energy supply and limited staff and supply availability. While those services and resources were taken for granted by citizens and companies, those events highlighted that even the EU economy could not be guaranteed continued access to energy, water, healthcare and/or other essential SGI and public services. In these crisis, **SGIs and public services have managed to keep Europe in motion. Yet, Europe should not rely on surviving crisis, but being able to structurally prepare and setting the right EU measures for its essential services to become more resilient and prevent crisis.**

To this end, SGI Europe and its members (especially from the local and regional government bodies and the water and wastewater sector) calls for **urgent actions to be taken to avoid a water crisis.** The increasing risks stemming from climate change such as droughts, water shortages and extreme heatwaves, will call for adapting to this "new normal". In anticipation of those consequences, SGI Europe is therefore supporting the European Economic and Social Committee (EESC) urging the European Commission to put forward an "EU Blue Deal" to safeguard this valuable and irreplaceable good.

In light of the public consultation of the European Commission on its mid-term assessment of the climate targets for 2040, SGI Europe wishes to underline three essential development measures (the economic, social and environmental dimensions) as a steppingstone to our climate neutrality targets in 2050:

[1] Sustainable development in the European Union – Monitoring report on progress towards the SDGs in an EU context – 2023 edition - Products Flagship publications - Eurostat (europa.eu)

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Economic dimension: SGIs as the enablers and drivers for a sustainable reindustrialisation of Europe

On the road to boosting the EU Net Zero industrial transition, SGIs are key enablers and drivers to realise the climate and energy transition. Due to our essential role as providers of services of general interest, we provide public goods on a daily basis. SGI Europe welcomes the ambition of the European Commission – with the Net Zero Industry Act (NZIA) – to make Europe a global leader for clean technology. SGI Europe and its members – especially from energy, transport, housing, water and waste management sectors – will need this boost in clean and advanced technologies to enable the climate transition.

To this aim, SGI Europe remains strong to support the goal of an EU net greenhouse gas reduction target of at least 55% by 2030 and underlines that EU legislation should be technology neutral to enable more industries to contribute to this objective.
Without the inclusion of all technologies that could contribute to carbon neutrality, it is unlikely that the EU will reach its goals. Technology neutrality also ensures a level-playing field among the EU industry, which contributes to the EU's industrial strength and innovation.

Energy

SGI Europe argues that the **2040 target should be a minimum of 80% emissions reduction**, which implies keeping the path defined by the EU Green Deal. However, the endpoint must be distinguished from the cumulated emissions (carbon budget). Therefore, **the EU should accelerate its decarbonisation efforts now and, in each sector, where economically and socially feasible.** The EU should not wait until the end of the period to increase efforts, which could lead to a very high volume of emissions and risks not reaching net zero in 2050.

Establishing a general net emissions reduction target, combined with separate sub-targets for GHG emissions reduction, nature-based removals, and industrial removals should be supported. Such a tailored approach would indeed prevent threatening the functioning of proven decarbonisation tools, like the EU-Emissions Trading System (EU-ETS) until the accuracy and scalability of removals are entirely proven.
Reducing the EU's gross emissions shall remain the priority: carbon offsets will be needed in specific cases. However, a determined framework must ensure their efficient use where economically and socially feasible.

Phasing out of fossil fuels, deploying low-carbon and renewable energy generation capacities, making use of district heating and cooling and electrifying the energy system should be the EU key focus points. Carbon removals will be crucial to reach the EU's climate neutrality goal, but it shall not diminish the efforts to reduce gross emissions. Carbon removals should thus benefit from a determined policy framework that mainly restricts their use to specific hard-to-abate sectors where emissions cannot be eliminated. Among others, a precise registry of all projects and transactions will be necessary for an accurate emissions' accounting.

Reducing the EU's gross emissions shall remain the priority: carbon offsets will be needed in specific cases. However, a determined framework must ensure their efficient use where economically and socially feasible.

SGI Europe supports the anticipation of the **EU-ETS beyond 2030** linked to the need for visibility on the future European carbon budget and calls for coordination with other instruments, such as the Effort Sharing Regulation (ESR).

In general, we welcome the revision of the EU-ETS. The ambitious cap reduction and the scope extension will ensure that this instrument remains the cornerstone of an efficient EU climate policy. However, any future extension of the EU-ETS (to sectors such as transport and buildings, emissions or linkage with non-EU trading schemes) should be carefully assessed to avoid destabilising the current system (abatement costs not comparable) and adverse social consequences. While all sectors should contribute to the decarbonisation efforts, it should be questioned whether their coverage by an extended or a new EU-ETS is the best tool to drive emissions reduction.

As decarbonisation is about cumulated emissions, defining a carbon budget for the period running up to 2050 will give a strong signal. We welcome the definition of this budget as soon as possible, which will lead to a new revision of the EU-ETS and the ESR.

National targets imposed by the ESR should be maintained to ensure the commitment of governments alongside the incentives given to the private sector through carbon pricing. The coverage of ETS2 sectors (buildings and transport) by the ESR does not seem to be a problem and should remain as such, at least until ETS2 has proven that it can trigger emissions reduction.

We support the Carbon Border Adjustment Mechanism (CBAM) to strengthen EU industries but recommend its careful implementation. SGI Europe welcomes the constitution of a CBAM based on the EU-ETS price, as it creates a level-playing field for European and non-European companies. However, the extension of the CBAM to other products and types of emissions should be assessed carefully. For example, today, domestic electrolytic hydrogen production greatly depends on indirect costs compensation to be competitive with its carbonized alternatives. Including indirect emissions in the accountability of hydrogen could hence have more negative effects than benefits for the level playing field of clean hydrogen.

Circular economy

Overall, in light of the EU Green Deal Industrial Plan by the European Commission, **SGI Europe believes that the concept of circular economy (as proposed by the European Commission in 2020), has become a key missing piece of this new European economic architecture. It can enable a more efficient and sustainable element to its strategy**. Services of general interest are the key players in driving this new economic strategy and will pave the way for other economic actors to follow.

Climate protection and economic development are not competitors but go hand in hand. Therefore, it is vital to acknowledge that investments in sustainable solutions have an incredible impact on economic growth and have job-creating effects. **SGI Europe believes that the political strategy set by the second Circular Economy Action Plan (CEAP) shall remain high on the EU political agenda** as a key policy measure for the recovery phase of the energy crisis and COVID-19 to ensure a resilient and sustainable development towards climate neutrality in 2050.

For SGI Europe, respecting the higher steps of the waste hierarchy – prevention, reuse and recycling – must remain a top priority and be adequately financially supported. **SGI Europe underlines that politically ignoring the step on how to deal with residual waste sustainably and beneficially via Waste-to-Energy (WtE) will leave a gap in bridging the path towards energy independence in Europe**. This will also significantly affect how successful the circular economy will be in the future.
Ignoring the positive contribution of WtE, as well as of controlled landfilling of pre-treated waste, will lead to incomplete waste management systems. Consequently, high-quality recycling cannot be achieved due to a lack of outlet for rejects and, where landfill or transboundary movement remains the only option for untreated

residual waste, impeding the achievement of the target set in the EU Landfill Directive. For this reason, SGI Europe calls upon the European Commission to take this low-hanging fruit to fill the gap towards energy independence and reflect this also in the finalisation of the EU Taxonomy Regulation.

Mobility

Road transport contributes to over 70% of greenhouse gas emissions in the transport sector, and traffic in cities alone is responsible for 23% of all EU-wide greenhouse gas emissions. **With the transport sector having the greatest potential to become climate-neutral, traffic-related emissions must be reduced by 80% by 2040 and 90% by 2050.**

In order to meet the EU's long-term target of reducing transport emissions, SGI Europe believes that a focus on rail and public road transport and city traffic is necessary. We therefore recommend **a strong shift towards less polluting modes of transportation and urban public transport as well as the promotion of rail freight**. This needs a continuous promotion both at the national and EU Level.

A shift for urban public transport can only be reached when users have good access to many different alternatives, which includes good information to plan, book, and pay for multiple types of mobility. In addition to their climate approach, SGI Europe advocates for the **Door-2-door approach, i.e Mobility as a Service (MaaS) principle**, to be implemented to ensure a complete mobility transition in Europe. This principle means that all mobility options, including scooters, bikes, e-motorbikes, e-car sharing, flexible bus services, buses, metros, and trains, should be available for Europeans to travel from point A to point B. Implementing this principle will require further sharing mobility data.

Fostering the power of data and promoting the **exchange of data will be essential for promoting public transport and new forms of mobility**. However, there must be no unilateral obligation to open data only for publicly owned companies. To ensure the fairness of the digital transformation of transport, **both publicly owned and private companies must face the same obligation**s. Otherwise, this would lead to a massive distortion of competition.

Furthermore, SGI Europe also wishes to underline the heavy investments needed in the public transport sector to truly realise the mobility transition and guarantee access and connectivity to local, and regional places across Europe. These **significant investments are needed to facilitate a modal shift in both freight traffic and public passenger traffic by rail and road**, which are already making a significant contribution to climate protection, regardless of the driving technology used.

Investments in rail transport and public transportation are investments in sustainable mobility, jobs and social participation at the same time. The greening of the economy will work in particular through the public transport sector and the associated shift of traffic from road to rail. A high modal split share of rail contributes to creating high-quality jobs in the rail industry and consequently ensures long-term economic stability.

A "modal shift towards rail freight and public passenger transport" requires ambitious goals with consistent control measures, these are:

- Measures to secure infrastructure investments;
- A shift towards public transport in the EU budget;
- Measures to create incentives for the expansion of multimodal transport offers;
- Mobility as a Service;
- Measures to create a level playing field.

Housing

SGIs carry the responsibility to enable affordable and efficient housing conditions. SGI Europe, therefore, welcomed in general the European Commission's initiative for "A Renovation Wave for Europe" in 2020. As buildings in Europe consume around 40% of energy, the building and housing sector has to play a greater role in the mid-term measures to achieve climate neutrality.

However, a basic prerequisite is that zero-emission buildings in the building stock are not only achieved through the highest efficiency standard. **Data collected by SGI Europe members highlight that the complete energy retrofitting of all buildings to high efficiency levels cannot be financed by tenants, landlords or homeowners, nor by Member States.**
According to the calculations of our German Housing member GdW, the energetic refurbishment proposed by the European Parliament to reach net-zero buildings by 2029 would amount to €261 bn per year for the German building stock alone. This is at least six times more than the most recent annual investment in energy refurbishment (which is at around 40 billion euro and is on a downward trend).

Realistically, achieving the ambitions in the buildings sector only has a chance if:

a) the focus on CO2-free heat supply is set and
b) the buildings are cost-efficiently upgraded to a level compatible with the provisions of low carbon heating and cooling (for instance heat pumps).

SGI Europe also has strong concerns that labour and skills shortages in Europe's construction sector could mean there are not enough people to take up the jobs vital to renovating buildings in line with EU climate ambition. The transformation towards a climate-neutral building stock will only be possible if existing jobs are transformed to include green and circular skills and if new job profiles emerge. Having a qualified building workforce is essential to ensure the high levels of quality required for moving towards a decarbonised building sector and to accelerate the rate of building renovation in Europe.

SGI Europe explicitly shares the goal of the EU to achieve carbon neutrality by 2050. However, it must be left to the national and local levels to decide on the most efficient and socially sustainable strategies to achieve this aim. Therefore, **it is important to create a path that is realistic and takes into account social and economic concerns**.

Shaping the right financial instruments to realise the climate and energy transition

EU Taxonomy

Efficient and faster access to investments and funds will be crucial to ensure the efficient development of technologies which are not yet mature but have a great potential for the decarbonisation. While recognising the role of the EU in financing innovative technologies and welcome the recent increase of the Innovation Fund, we regret that some funds are limited to SMEs who often do not have the capacity to absorb all of it, limiting the access to key actors to support instruments for the climate transition.

SGI Europe fully supports the European Commission on its path to further developing the EU Taxonomy of Sustainable activities and for strengthening its tools and applications for a functional sustainability reporting scheme. **SGI Europe is very supportive of a continuation of the progress and development of the EU Taxonomy that aims to finance the transition.**

The funding challenge will require setting the right framework, and includes the appropriate revision of capital flows to redirect them towards environmentally friendly and socially sustainable economic activities. The concept of the sustainable finance mechanism and the Taxonomy Regulations can act as crucial enabling tools to realise the objectives of the EU Green Deal.

SGI Europe sees it as essential that this framework is guided by common principles that safeguard a similar level of ambition across various sectors and aims for a technology neutral approach. It will be also important to ensure that the EU Taxonomy takes into account the maturity of the technologies and the contribution that they will make in reducing CO2 emissions and add to the circular economy principle such as waste-to-energy. For the mid-term reviews, **SGI Europe is calling to continue the revision on the Taxonomy and its practical implications and effectiveness.**

Green Public procurement

With its substantive relevance in the market, representing 12% of GDP and one-third of government expenditures[2], **public procurement can shape trends and help achieve ambitious goals in sustainable development if used strategically**. Strategic public procurement, which takes into account green, social and innovative considerations, is instrumental for sustainable public service delivery. High-quality SGIs and public services depend vastly on modern and efficient public procurement, which should be used as a powerful tool to create environmentally friendly, socially inclusive societies. Sustainable procurement is expected to help reduce greenhouse gas emissions, support fair employment practices and ethical sourcing, and create new jobs and markets.

While green and social clauses undisputedly have the potential to bring positive change to society, at the same time, they are often associated with increased complexity in contract awarding due to the higher technical and documentation requirements. Furthermore, adding complexity to awarding procedures can have a negative effect on competition and sometimes encourage procurement litigation and exacerbates delays and higher costs.

[2] Data for OECD countries in 2018

SGI Europe highlights the fact that public authorities will in the coming years be obliged to implement mandatory green public procurement clauses in sectoral legislation (such as the Clean Vehicle Directive, the Energy Performance in Buildings Directive, the Energy Efficiency Directive etc.) The proposed requirements from the Net-Zero Industry Act would add another layer to this and risks increasing legal uncertainty support and legal certainty, which goes through a harmonised approach between the different regulations. Empowering public buyers and companies by knowledge sharing of best practice rather than simply obliging them will be key.

Social dimension: Paving the way towards a socially acceptable transition

Social partners have a **key responsibility to create, in the context of the climate transition, a socially acceptable business model**. Discovering what skills Europe will need for the climate transition and to keep up with the speed and scale of the transformation of the labour market requires the early and effective involvement of social partners, teachers and trainers.

Labour and skills shortages remain a key concern for SGI Europe members. The fear of “skills obsolescence” is also very high for workers in utilities and various SGIs due to rapid technological changes for the purpose of the green transition. We fear that this situation could endanger the “just transition” we are all calling for.

For this reason, SGI Europe is very active in promoting innovative Vocational and Educational Training (VET) and give it a strategic role in meeting the objectives of the green transition. This modernisation of skills strategies and training programs is best achieved through social dialogue.

Social partners have to be involved in the coming mid-term climate talks in devising national green skills plans and should have an active role in ensuring a just transition. These are essential either to fund innovative training or to foster a deep cultural change. Social partners should be given the means to initiate and lead communication and awareness campaigns that increase the visibility of occupations in sectors with low attractiveness for young people.

Lastly, we in particular have welcomed the anticipated implementation of **the Social Climate Fund by the EU institution as this sets the right signal that no one should be left behind** and such frameworks must continue to be placed at the EU level. The impact of higher carbon prices and more ambitious energy efficiency standards in buildings as well as other technologies (which are related to higher end-user costs) must be considered seriously and adequate measures such as fairly redistributing the revenues from the ETSs that should be incentivised to protect all consumers.

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Environmental dimension: Protecting water supplies via precautionary measures

Taking measures to avoid a water crisis

The European Economic and Social Committee (EESC) is currently intensively working on water as a cross-cutting theme for 2023 under the title "**EU Blue Deal**" and is building a comprehensive approach to European Water policies through several own-initiated opinions, addressing the topic from a sectoral perspective and making concrete proposals to minimise the threatening effects of water scarcity in the future.

Without any action taken at EU, national, regional and local levels, climate change will further intensify to new level, with many experts already warning of severe water scarcity in Europe. As SGIs, our duty is to make good quality water available to all in sufficient quantity. We call on EU institutions to pave the way to access to clean water as a fundamental human right, in line with the goal 6 of the Sustainable Development Goals and the principle 20 of the European Pillar of Social Rights.

Water is not only an environmental issue to our ecosystem and human consumption, but it is a driving source to make the economy run. **Without availability of good and sufficient water supply, the economy will be restricted, and reindustrialisation will be hampered**. To ensure water availability for Europe, it must be underlined that any measure taken must respect the existing EU water legislation under the Water Framework Directive and its daughter directives and follow the precautionary and control at source as guiding principles. It makes economically and ecologically more sense to avoid pollution at the source than remove substances once they have entered the water cycle.

Additionally, regarding the treatment of wastewater streams, SGI Europe underlines the importance of streamlining the polluter pays principle with its finance mechanism – the Extended Producer Responsibility (EPR) scheme. **SGI Europe fully supports introducing the EPR scheme as a key instrument as it represents a milestone in financing wastewater treatment according to the polluter-pays principle**. SGI Europe hence calls on the EU institutions to place such measures widely in the EU water legislation.

Overall, to ensure better access to affordable and quality water supply, SGI Europe urges EU institutions and Member States to:

- Put this transversal issue of water quality and availability in Europe on **top of the EU Agenda for 2024-2029** and put forward an "**EU Blue Deal".**
- **Ensure that all citizens enjoy the right to water and sanitation** and that the EU increases its efforts to achieve universal access to water and sanitation.
- **Guarantee that water supply and management of water resources remain outside of the scope of the internal market rules** and that water services are excluded from liberalisation.
- **Safeguarding EU Water Policy from large polluters and implement the Polluter-Pays Principle**