CONSULTATION RESPONSE

2030 CLIMATE TARGET PLAN

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

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SUMMARY OF PRI RESPONSE

The PRI welcomes the opportunity to submit a consultation response on EU climate ambition for 2030 and for the design of certain climate and energy policies of the European Green Deal.

Climate change is a financially material issue for investors, and many corporates and investors have publicly stated their commitment to the Paris Agreement and called for more ambitious climate policies. As the PRI's Inevitable Policy Response project has demonstrated, a delay in implementing the policies necessary to transitioning our economy would result in an eventual policy response that is forceful, abrupt and disorderly, undermining the value of investments and challenging the stability of the financial system.

Private finance has a central role in the transition to a net zero emissions economy by 2050. Investors need to support wider efforts with the levers at their disposal: capital allocation, stewardship, and policy engagement. The emergence of tools such as the EU Taxonomy should enable investors, companies, policymakers, public authorities and other key stakeholders to make decisions aligned with a net zero trajectory.

The PRI has partnered with Vivid Economics to develop policy pathways to a net zero economy. Supplementing other existing research, we have identified priority areas for action. The PRI response to this consultation focuses on these priority sectors and policy areas:

- Zero carbon power
- Energy efficient buildings
- CCS and industry decarbonisation
- Transport
- Forestry and nature-based solutions
- Agriculture

These areas align with the global framework of policy levers outlined in the Inevitable Policy Response policy forecasts, and have been chosen as they meet a combination of the following criteria:

- Current EU policies and targets are insufficient or incomplete.
- Progress to date is not sufficient.
- There are clear actions related to the sector which are needed today if the EU is to meet its target of net zero emissions by 2050 and to set climate ambition and policies for 2030 which are in line with that long term goal.
- Technology underpinning transition in the sector has moved beyond the speculative stage to the point where it can attract funding from mainstream private investors.

Many of the actions needed to deliver higher climate ambition by 2030 are highly aligned with priorities set out in the EU proposals to repair the damage from the COVID crisis and prepare a better future for the next generation. This includes the need to protect livelihoods and deliver jobs and economic growth through building a more sustainable, resilient and fairer Europe.

CONSULTATION QUESTIONS

[Note to readers;
Formatting:
Questions are formatted like this
PRI responses are formatted like this]

1. OVERALL CLIMATE AMBITION FOR 2030

1.1 2030 Greenhouse gas emission reduction target for the EU

With the recently agreed EU objective of achieving climate neutrality by 2050 and with climate and environmental action towards zero pollution increasingly recognised as urgent, what should be the EU's 2030 target to reduce greenhouse gas domestically?

- Target should be increased to at least 55%

This level of emissions reductions by 2030 is in line with scenario analysis setting out credible pathways to achieve net zero emissions by 2050.

1.2. Opportunities and challenges associated with an increased level of climate ambition in 2030.

Which of the opportunities in the list below would you consider as most relevant for the undertaking of a higher climate ambition by 2030.

- It will allow a more gradual pathway to reaching a climate neutral EU by 2050 duty towards the future generations.
- It will allow a more gradual pathway to reaching a climate neutral EU by 2050
- It will help mitigate costs associated with climate change to the society (from e.g. extreme weather events, droughts, loss of ecosystems etc.)
- It will reinforce EU leadership and inspire action to battle climate change globally
- It will create new (green) jobs, including those that are difficult to outsource outside the EU (e.g. maintenance of renewable energy installations, construction)

Which of the challenges in the list below would you consider as most relevant for the undertaking of a higher climate ambition by 2030.

- It will likely lead to a structural shift and changing skill requirements in the economy, in particular leading to a decline of sectors and jobs linked to fossil fuels extraction and carbon-intensive manufacturing
- The simultaneous transition to climate neutral, circular and digital economy and society may lead to significant labour reallocation across sectors, occupations and regions. Businesses, especially SMEs could face challenges in re-skilling and ensuring sufficient workforce

1.3 Balance of opportunities and challenges. For the opportunities and challenges you indicated in the above questions, do you consider that the opportunities would outweigh the challenges in your daily life (individuals responding) or sector of activity (organisations/authorities responding)?

- "Agree"

2. SECTORAL ACTION AND POTENTIAL TO REDUCE GHG EMISSIONS BY 2030

2.1 Importance of contributions by sectors. Please prioritise the sectors where you consider most efforts to reduce greenhouse gas emissions and increase absorptions are necessary in the perspective of increased greenhouse gas emission reduction target for 2030.

The highest priority sectors are:

1) energy supply
2) mobility/transport
3) buildings
4) industry
5) services (including ICT)
6) agriculture
7) forestry
8) waste management

2.2 Energy system. In your opinion, if the EU is to achieve a higher 2030 greenhouse gas emission reduction target, what would be the main drivers of the necessary energy transition by 2030?

- Phase-out of solid fossil fuels
- Higher penetration of renewable energy

- Electrification of final energy use
- Higher energy efficiency

2.5.1 Solid fossil fuels. In your opinion, how can this be addressed in addition to the existing legislation and greenhouse gas emission reduction targets for 2030 and 2050?

- Regulate on the national level, by imposing a phase out of solid fossil fuels in power generation by a certain date

2.6.1 Residential buildings - solutions for home owners. For residential buildings, please rate the options below to indicate what you would consider as most relevant solutions towards climate neutral homes for home owners.

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5	Don't know / no opinion / not relevant
Replace the current heating & cooling system by a more efficient one (e.g. replace a gas boiler by a heat pump)					x	
Replace old or inefficient heating equipment using bioenergy, solid or liquid fossil fuels						
Use renewable energy on-site (e.g. biomass, solar thermal, PV panels, geothermal) or off-site through district heating/cooling networks						
Improve the thermal properties of the building's envelope through better insulation and windows					x	
Use smart technologies (e.g. building automation and control systems, room temperature controls, smart meters)						
Use more energy efficient appliances						

2.6.2 Non-residential buildings - solutions for building owners. For non-residential buildings such as offices, shops, hospitals, schools, please rate the options below to indicate what you would consider as most relevant solutions towards climate neutral buildings for building owners.

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5
Use of building automation and control systems and smart building technologies					

Improve the thermal properties of the building's envelope through better insulation and windows					x
Introduce more energy efficient heating & cooling systems					
Use renewable energy on-site (e.g. biomass, solar thermal, PV panels, geothermal) or off-site through district heating/cooling networks					
Apply energy management systems					

2.7 Industry. Please rate the items in the table below to indicate the importance of the technologies and other solutions for the reduction of greenhouse gas emissions in industrial installations, in the 2030 time horizon.

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5
Use of hydrogen in industrial applications as e.g. fuel, feedstock or reducing agent			x		
Higher energy efficiency of industrial processes					x
Electrification of industrial processes			x		
Use of e-fuels in industrial applications					
Use of sustainable biomass as a feedstock (e.g. in the chemicals industry)					
Use of sustainable biomass as a fuel					
Use of carbon capture and storage or carbon capture and use			x		
Developing a more circular economy where products and materials are more re-used and recycled, developing new business concepts					
Substitution of emissions intensive products by alternative products produced with no or low greenhouse gas emissions					

2.8 Mobility: road transport. In view of climate and environmental challenges, please rate how important it is for EU action to focus on the following areas.

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5
Increasing the share of more sustainable transport modes (e.g. supporting multimodality, active transport mode such as walking and cycling)					
Improving the efficiency of the whole transport system (e.g. through better traffic management systems)					
Increasing the uptake of clean vehicles such as electric and hydrogen fuelled vehicles (e.g. emission standards) and ensuring their efficient integration into the energy grid					x
Increase the uptake of sustainable alternative fuels (e.g. developing recharging/refuelling infrastructure, blending mandates)					
Incentivising sustainable consumer choices and low-emission mobility practices (e.g. increased application of the 'polluter-pays' and 'userpays' principles, better consumer information on carbon footprint)					
Increasing investment in sustainable transport infrastructure and solutions (e.g. high-speed rail, inland waterways, recharging and refuelling infrastructure)					
Fostering the deployment of innovative digital solutions in transport					
Improving affordability and accessibility of sustainable transport					

3. ENABLING CONDITIONS AND OTHER POLICIES

3.1 Consumer choice. Consumer choices and behavioural change can considerably impact our greenhouse gas emissions. Which potential changes do you consider to have the highest potential to reduce greenhouse gas emissions?

3.2 Just transition and employment. Which type of actions should the EU support in the context of its funding tools under climate policy like the Modernisation Fund under to EU ETS to promote a just and socially balanced transition?

The Just Transition is an important consideration for investors.[1] EU support should consider how it can be deployed in a way that maximises the synergies.

[1] https://www.unpri.org/academic-research/climate-change-and-the-just-transition-a-guide-for-investor-action/3202.article

3.3 Taxation and carbon pricing: use of revenue. Carbon pricing, while increasing the costs of energy, also offers the possibility to use revenue in a beneficial way. Which of the following would you consider as the most useful way of using proceeds from carbon pricing instrument?

3.4 Research, innovation and deployment. In your view, where the government research funding would be most important to achieve deeper emission reductions by 2030 with a view to achieving a climate neutral EU by 2050. Please select at most five options.

4. ADDITIONAL INFORMATION

Are there other key aspects which you did not find reflected in the questions and you would like to comment upon?

Analysis from PRI's Inevitable Policy Response (IPR) project provides a number of sector policy recommendations that are not fully reflected in the questions in the consultation document.

- **Need for independent review and build additional administrative muscle**. Experience to date has shown that independent advisory bodies can play a vital role in the developing granular policy recommendations as well as monitoring and publicly scrutinising the progress on emission reduction. In line with the approach taken by a number of European countries, PRI recommends establishing an expert council or committee to advise the Commission and Members States on policies for reaching EU wide targets and publicly reporting on the progress made. This new committee should be incorporated into the legislation for the EU law and should be made independent of the Commission.

- **Power sector:** Require member states to set and meet CO2 intensity targets for electricity generation in line with 2050 climate neutrality objective.
  Substantially increase the level of ambition for decarbonising electricity generation. For the short term, fulfil the European Recovery Plan commitment for the new Strategic Investment Facility to invest in renewable and energy storage technologies, prioritising investment in member states with low levels of these technologies. For the longer-term, carry out a detailed study on the likely role of renewable energy in meeting the 2030 GHG reduction target and 2050 climate neutrality target, and strengthen the Renewable Energy Directive target as needed.

- **Transport:** Strengthen and extend new car and van CO2 regulations, progressively reducing average new car CO2 emissions and towards zero by 2035, increasing market share of ZEVs to 100% by 2035.
  Fulfil the European Recovery Plan commitment for the Connecting Europe Facility, InvestEU and other funds, which will support the financing of the installation of one million EV charging

points, focusing on member states with low levels of electric vehicle deployment and limited charging infrastructure.
Develop and implement a comprehensive EU heavy road transport decarbonisation strategy. The strategy should set clear objective of decarbonising heavy road transport by 2050 and set out a roadmap to achieving that objective. The strategy should be supported by detailed technical and economic analysis on pathways to decarbonise road transport, the barriers to achieving these pathways and solutions to address them, including a programme of RD&D and demonstration projects to commercialise low-carbon trucks. The strategy should set out a timeline to implement these solutions and to develop the necessary policy framework to decarbonise heavy toad transport by 2050. Finally, the strategy should align to the new Clean Hydrogen Strategy committed to in the European Recovery Plan.

- **Buildings:** Reform Energy Performance of Buildings Directive to require objective and stringent thermal efficiency standards across members states.
  Substantially increase the level of ambition for buildings renovation. In the short term, fulfil European Recovery Plan commitment to provide funds from the Recovery and Resilience Facility to double the annual renovation rate of existing building stock. In the longer term, reform the Energy Performance of Buildings Directive, with Member States to require owners to renovate buildings to high standard of thermal efficiency at key trigger points (sale, rental, change of use, etc).

- **Aviation:** Publish a new Aviation Strategy for Europe, clarifying the potential to reduce aviation emissions over the period to 2050 and beyond, the relative roles of technological, operational, demand-side and offset solutions, and proposals for a policy framework to deliver cost-effective emissions reductions from the sector.

- **Afforestation:** Fulfil European Green Deal commitment to prepare a new EU forest strategy with key objectives of effective afforestation, and forest preservation and restoration in Europe.

- **Agriculture:** Based on the recent Farm to Fork Strategy identifying opportunities to create a more sustainable food system, require member states to set and meet targets for CO2 reduction from improved fertiliser efficiency and livestock management measures.

5. CLIMATE AND ENERGY POLICY DESIGN

5.1 Role of the different climate policy instruments. Of these three key pieces of climate legislation which ones would require a substantial increase in ambition in order to allow the EU to achieve greenhouse gas emissions reduction in the range of 50% to 55% by 2030 compared to 1990. Please rate the items in the table below:

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5
EU Emission Trading System			x		
Effort Sharing Regulation					x
Land Use, Land Use Change and Forestry Regulation				x	

5.6 Role of energy policies. What are your views on which legislative instruments in the energy field should be revised to contribute to the increased climate ambition for 2030.

- Renewable Energy Directive
- Energy Efficiency Directive

5.6.1 Renewable energy policies. In case of higher ambition (than 32%) for renewable energy, please rate potential action/instruments that could be considered in the list below:

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5
Stronger enforcement of the existing legislation					
Additional technical and financial support in implementation of the existing legislation					
Additional measures to incentivise a more Europe-wide approach for renewable energy production (e.g. cross-border projects for renewable electricity production)					
Additional measures to increase decentralised renewable energy production (e.g. self-consumption, energy communities)					
Additional measures to increase renewable electricity production, including development of necessary infrastructure					x
Additional measures to increase renewable heat and cold production (both in buildings and in industry)					x
Additional measures to increase renewable energy consumption in industry					

Additional measures to increase renewable energy consumption in buildings					
Additional measures to increase renewable energy consumption in transport					
Additional measures to ensure that biomass use remains sustainable					
Additional measures to support innovation related to renewable energy production					

5.6.2 Energy efficiency policies. In case of a higher ambition (than 32.5%) for energy efficiency, please rate potential action/instruments that could be considered in the list below:

Rating from 5 (very relevant) to 1 (little relevant). Not all options need to be rated.	1	2	3	4	5
Stronger enforcement of the existing legislation					
Additional technical and financial support in implementation of the existing legislation					
Making the “Energy Efficiency First” principle a compulsory test in relevant legislative, investment and planning decisions					
More stringent energy performance standards for products					
More stringent energy performance requirements for buildings					x
More stringent energy performance requirements for industrial processes, including through process integration and waste heat reuse					x
More stringent energy performance requirements for transport vehicles					
New requirements for agriculture sector and promoting electrification of machinery					
Standards for ICT sector to promote energy efficiency and reuse of waste heat					

5.7 Energy infrastructure and sector integration. What do you think should be the priorities for the EU's infrastructure planning in the years ahead to facilitate decarbonisation?

- Strike a balance between electricity and gas infrastructure. Electricity cannot cover all energy demand, and thus gas will still be needed, but will have to be decarbonised. Part of the electricity production can be converted into synthetic gas/hydrogen through power-to-gas technologies and transported to demand centres.
- Put the focus on electricity transmission and smart grids. With the expansion of renewable electricity and the electrification of energy demand, the priority is to expand the electricity network, notably to reap full potential of wind

5.9 Waste management. In your view, which waste policies would play the most important role to reduce greenhouse gas emissions?

- Introduce a target to reduce EU food waste
- Introduce a target to ensure a certain amount of our food and animal waste is converted into biogas
- Introduce legislation focussed on reducing greenhouse gas emissions from wastewater and liquid waste (e.g. sewage sludge)"

7. ADDITIONAL INFORMATION

Climate and energy policy design

PRI recommends a comprehensive package of measures to strengthen the EU ETS before expansion to currently non-traded sectors such as transport, buildings, waste and agriculture. This could include: aligning the cap with revised 2030 target, increasing the intake rate of the market stability reserve mechanism to absorb past and future permit surpluses, introducing a carbon price floor amongst leading member states,