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EPP leading the sustainable transition towards a climate-neutral future

The reality of climate change is growing starker with each passing year and even as the world's attention focused on the coronavirus, the effects of climate change have accelerated. The recent extreme heatwaves and tragic floods point to the urgency to act before it is too late. The overwhelming scientific evidence of global warming suggests that we are fast approaching the tipping point of no return and underline the urgency to act swiftly and resolutely to keep the global warming below 1.5 °C, especially as we are currently on course for a 2.5 °C increase even assuming that all parties fulfil their existing pledges. The latest IPCC report published in April 2022 shows that we've reached the now-or-never point of tackling climate change. As in the case of the pandemic, the EPP trusts the facts and stands firmly with the science.

The Russian war in Ukraine further amplifies the need to decrease our dependency on fossil fuels. The European Green Deal should play a key role in improving the EU's energy and food security while delivering on the ambition of climate neutrality.

The past seven years were the hottest seven years on record. There needs to be a long-term decline in CO2 emissions to avoid the climate crisis. The recovery from the pandemic is an opportunity to reverse the unfavourable trend and enable the sustainable transition to climate-neutral future. The European Union with its recovery and resilience plans is on the right track to lead the way and the EPP is committed to this responsibility. To bring the maximum value for our citizens, it is paramount that the criteria adopted by national governments are as transparent as possible.

Conscious of the legacy we leave for our children, the EPP believes we shall only pass on a prosperous and sustainable future for our businesses, our homes and our farms, if we change now in a collective and collaborative effort. It must be a citizen-driven and technologically neutral transformation for all our futures, safeguarding our community, heritage and our natural capital. Valuing every member of the community, solidarity with those who are most exposed by the changes needed or least able to shoulder the burden of change and concrete policies to support them and reduce the burden in specific areas

are essential. The EPP should build on its strong position not just on the EU and national levels, but also in the regions and local governments, to raise awareness and bring the citizens with us.

The pathways to meeting these goals should be set in a wider context of correcting the entire supply chain of our lives for the environmental damage unintentionally caused. In that way, consumers and producers must work together on a shared agenda which is in everyone's interest. We must stand firmly against the politics of blame and division as the route to resolving the challenge.

Enabling the paradigm shift

To fulfil the targets of the Paris Agreement and meet the goal of climate neutrality by mid-century, the EU has decided to step-up the climate ambition and raise the 2030 target for lowering the carbon emissions by 40% to at least 55%. The EPP has supported this step as it would, apart from the environmental benefits, strengthen the competitiveness of businesses, create jobs, and bring prosperity for citizens. The transition to climate neutrality is urgent and no longer has alternatives.

At the same time, the challenge of this ambitious step should not be underestimated. The sustainable transition will require a systematic approach and a paradigm shift across the whole economy. This is a challenge which requires a dynamic state, but not one seeking to regulate every aspect of a complex journey. Instead, it ought to be committed to create the framework where system change can occur, stimulating collaborative efforts and the innovation of entrepreneurs, who become early movers in new technologies.

The idea behind the new taxonomy guiding investment needs to be converted into language citizens can understand. All public and private investment must pass a test of being consistent with the new zero emission, zero pollution, minimum waste ambition.

For individuals and for small business, necessary investments must not be priced out of their reach. In particular, we must not load insupportable burdens on the younger generation, who have to fund those investments in the here and now. The benefits of these high standards demanded by the climate policy are for our entire society, so the extra cost must be shared. Policy tools must be designed to fund elements which have a long social payback.

While market signals have an important role to play in ensuring that transition is done in an efficient way, big transitions like this face numerous areas of potential market failure, so integrated sectoral planning and actions that form a portfolio of mutually supporting changes need to be developed. Frameworks for new markets in sharing, repairing and reusing need to be built. Synergy at the EU, regional, national and local levels will ensure that the ideas resonate with the public.

Decarbonising energy and the energy transition

All sectors of the economy need to contribute to the increased climate ambition. The emissions trading scheme (ETS), as the cornerstone of EU climate policy, has proven to be the most cost-efficient way to cut emissions. To continue its success, it should be strengthened and aligned with the new targets by lowering the overall emissions cap as well as the amount of free credits for the polluting industries. We must create a system where every citizen and every company saves money and creates additional income if they reduce CO₂-emissions. That's why the EPP supports the plans to expand it to more sectors of the economy and create a new ETS for fuels used in road transport and heating including process heating to progressively cover all fossil-fuel combustion emissions. However, this shall be designed in a way that ensures a gradual introduction, alleviating the immediate pressure on prices for transport and heating and cooling and avoids excessive administrative burden. A robust carbon price should give the necessary signal to the businesses and drive the transformation in the most cost-effective way. At the same time, it is important to have a set of measures to avoid price hikes which would make the new ETS for road and buildings more expensive than the main ETS, thus creating an unbearable burden for parts of our society. We must end the fossil energy subsidies, promote energy efficiency and shift funds to the expansion of renewable and large-scale, low carbon safe and sustainable electricity production, infrastructure and services. However, we want to maintain free allocation for as long as it is necessary in view of the global competitive situation. Technologies for capturing, storing and re-using the CO₂ will further reduce the emissions in areas where the transition is slower. Sectors hard to abate such as air transport should benefit from sufficient feedstock for transition, in order to make the immediate decarbonisation possible. We support a strategic value chain alliance fostering the deployment of larger volumes of sustainable fuels in these transport modes.

Electricity production must be fully decarbonized, with investments in sustainable renewable energy and energy storage systems ramped up, creating local jobs and allowing consumers to generate their own energy and resell it. The permitting procedures for renewable projects should be expedited and the overall administrative burden on European companies reduced. Deployment of electrification and harnessing the potential of low-carbon energy-efficient hydrogen by enabling investments and removing the unnecessary regulatory barriers will help with further decarbonisation. The EU should cooperate with partners in and outside Europe for green energy projects. The ongoing negotiations on green hydrogen alliances with third countries could be part of a short-term solution to reducing the EU's dependence on fossil fuel imports from Russia. At the same time, strengthened cooperation with countries in the Middle East and North Africa should be bound to measures of improving the compliance with human rights.

While every EU country relies on its own energy mix, nuclear power can play an important role in the transition towards low carbon and carbon-free electricity generation for some Member States, provided it complies with the strict European environmental and nuclear safety standards. Carbon capture and use technologies shall be promoted to allow a more rapid transition to a carbon neutral electricity production. Boosting the production of sustainable biofuels will further advance the EU's climate ambitions and energy resilience.

Furthermore, we also want to strengthen the "energy efficiency first" principle in the EU. By investing in energy efficiency, much more CO₂ can be saved per euro invested than by investing exclusively in renewable energies. Unlike renewables, no new transmission lines or storage facilities are needed for electricity that is not consumed in the first place.

The insulation of buildings is a low hanging fruit with immediate energy-efficiency results and economic benefits for the residents. Integrating renewable energy in heating and cooling and improving the renovation rate of building will further drive their energy-efficiency. Profits from the energy savings and emissions trading should be particularly geared to address the impact on the low-income households. In fact, only market-based measures will give us the necessary resources to address social issues so that we can compensate especially those parts of the population that are challenged the most. Here, the European Union and the Member States must under no circumstances receive more revenues through the new ETS than they give back to the citizens elsewhere in a socially just and climate-friendly way. Climate-friendly behaviour must pay off, especially for low-income households.

To achieve that the clean transition is fair and doesn't leave anyone behind, it ought to account for the contrasting socio-economic conditions, the discrepancies among the various business sectors and the different starting points in each member state. Social impacts of the measures, for example in regions that depend on heating from coal or natural gas, must be considered. Production should be maintained in Europe and not outsourced abroad. The EPP supports climate policy that is backed by evidence and encourages science-based decision-making. Such policies shall allow transitional low carbon solutions to be supported by the EU, via its Sustainable Finance framework, to ensure a more rapid phase out of coal-based energy production.

The additionalities and cumulative effects of the "Fit for 55" legislative package will have to be weighed so that all economic sectors are treated adequately. The cumulative costs of the package must be analysed to prevent an uneven burden on citizens for their transport and housing needs. At the same time, measuring progress only by the old metrics of production growth will not deliver the desired levels of quality of life and wellbeing for the people. Instead we must focus on strengthening the resilience of our economic model, bringing the citizens with us and increasing the overall community gain. The Sustainable Development Goals Agenda should guide this process and foster healthy ecosystems, equality and fair access to essential services such as high-quality mobility, housing, nutrition, education and healthcare for the families.

Finding ways to engage citizens in this endeavour should be central to our platform. The use of citizen assemblies and the formation of sectoral compacts, where all stakeholders are represented, should be developed. The EU should lead the flagship projects and demonstrator initiatives supporting innovation that not just drive change but capture the imagination of citizens. The EPP supports participatory awareness-raising initiatives such as the European Climate Pact, bringing together people, communities and organisations to participate in climate action.

Driving the change

The transport sector has vast potential to reduce its emissions. At the same time, it underpins the freedom of movement of goods and citizens, enables the economic growth and creates jobs. For the mobility and tourism sector to face challenges such as climate

change and the global pandemic, the transport networks must become smarter, more resilient and sustainable.

The EPP calls for a balanced and technologically-neutral decarbonisation, automation and electrification of the transport sector, in a cost-efficient and energy-efficient way. All transport modes should be allowed to operate sustainably at a level playing field, with a focus on multimodality and attracting private investments in deployment of mature technologies, new infrastructure and fleet renewal. The market has already recognised electrification as a game-changer for decarbonisation of the transport sector. We must increase the market share of the sustainable alternative fuels in all transport modes. Deployment of clean hydrogen should be advanced by enhanced investments in research and innovation, removal of regulatory barriers and support for demonstration projects. At the same time, several challenges persist such as consumer habits and the lack of available low carbon mobility solutions and infrastructure in less developed areas. These have to be acknowledged so that everyone is included in the European Green Deal. The potential of modal shift and vehicle sharing to reduce the size of fleets and the use of materials, and consequently free up of car parking space, is also important.

Both the car manufacturers as well as users need legislative predictability. The emission reduction targets in road transportation should consider all factors – the economic, social and technological capabilities, costs, market affordability and infrastructure adaptability. They shall not discriminate among different technologies and allow all drive train technologies to continue improving their emission performance, without forcing technological phase-outs.

The global nature of aviation and maritime transport necessitates an effective international response. EPP supports the use of alternative fuels in aviation, while tightening the rules in the ETS for all airlines operating in Europe and increasing the environmental ambition of the CORSIA instrument, ending fossil fuel subsidies and closing taxation loopholes to reduce emissions effectively and also make the switch to rail more attractive, while ensuring the competitiveness of the European aviation market. The maritime sector, EU and non-EU when arriving at or leaving from an EU port, must finally be held accountable for its emissions and contribute to the decarbonisation of the transport sector. It needs a clear strategy for reducing its emissions based on a basket of measures which include efficiency standards, uptake of alternative fuels in maritime transport, shore side electrification and including the maritime sector in the EU ETS with full auctioning after gradual phasing-in.

Sustainable alternative fuels production needs to be boosted and whole value chains need to be developed to allow significant volumes of such fuels to drive the decarbonisation of air and maritime transport. We should incentivise market opening, regulation, harmonisation and standardisation in railways and inland waterways.

Sustainable agriculture and forestry

European farmers and forest owners are important partners in combatting climate change through their efforts in improving the sustainability of our food systems within the common agricultural policy and our forests. In light of the European Climate Law, they also play an extremely important role for achieving the EU climate goals. As sinks should increase above 300 million tons of CO₂ in 2030, we must support farmers and forest owners in saving CO₂. While sinks are an important function, agriculture and forestry must not be reduced to that. Food security and the multifunctionality of forests must be secured and considered when introducing any measures.

The European agriculture produces under highest and strictest environmental standards in the world and since 1990 the agricultural emissions in the EU have decreased by 23%. Nevertheless, this reduction occurred mostly in the early 1990s. To incentivise further progress and efficient abatement in the short term, we need to compensate farmers to farm for greenhouse gas reduction. At the same time, we need to encourage biogenic methane reduction in the short term which is a factor in not just reducing the amount of warming that would otherwise occur but actually inducing a strong cooling effect on the climate due to methane's short lifespan. Although agriculture offers the second-highest overall methane-emission reduction potential of any sector, its methane emission sources are diffuse and therefore potentially difficult to monitor, report and verify. Well-demonstrated practices already exist to help reduce the emissions by improved slurry and manure management while also decreasing the level of ammonia released by the agriculture sector. The EU should play a key role in supporting research, innovation and development, as well as in scaling up new sustainable technologies and practices to help reduce methane emissions from livestock agriculture. It is equally important to improve the measurement, reporting and verification of methane emissions in that sector, while protecting and improving animal health and welfare.

The Farm to Fork Strategy as a key element of the European Green Deal, the new Common Agricultural Policy and the Biodiversity Strategy address the areas in which agriculture and

forestry can further contribute towards reaching the climate targets. In order to develop a vision for agriculture in a zero-emission world, we need to work and engage with farmers and identify key policies that will be needed to support the transformation. The agriculture sector provides a unique opportunity as it is the only sector which can not only emit less but also absorb more. The winning approach must take the respective capacity and potential of the sector, in a realistic and achievable manner, into account and address all aspects in relation to the distribution of efforts, of fairness and cost-effectiveness. The cumulative impacts of all of the Green Deal's objectives on global food security must be carefully assessed.

Forestry is of key importance for the achievement of the objectives of the European Green Deal, including on climate neutrality, biodiversity, the bio- and circular economy, and providing clean energy as well as sustainable alternative fuels for transport. In addition, forest-based products play an important role by substituting fossil-based products. The EPP regrets that the new EU Forest Strategy does not fully recognise the socio-economic co-benefits that forests provide as it would strike the right balance between carbon storage, supply of raw material, biodiversity conservation and provision of other services (recreational functions and protection against natural hazards). The Concept of Sustainable Forest Management (SFM) is widely agreed and should be utilized also in the context of the Taxonomy Regulation.

Improving the environment and climate performance and increasing resilience of agriculture and forestry sectors will demand innovative solutions, knowledge, technical capacity, expertise, and strong coordination. Particular attention should be given to family farms and to attracting young farmers and fostering generational renewal in the rural areas.

Financing the way forward

Raising our climate ambition to cut emissions demands a solid funding plan. Financing the European Green Deal and increasing the financial resilience of the economy, companies and citizens will require mobilisation of green capital and significant investment efforts across all sectors, both public and private. These funds would enable investments in precommercial procurement and deployment of commercially mature clean energy and transport infrastructure, efficient building insulation and district heating systems.

The EPP welcomed the sustainable investment plan set to mobilise at least €1 trillion in sustainable investments across the EU over the next decade. A renewed Sustainable Finance Strategy should create an enabling ecosystem for sustainable investment with the right incentives and fully integrating the climate and environmental risks. The harmonised indicators should be based on scientific evidence and life-cycle analysis, not political targets. The EPP supports the process to develop European non-financial reporting standards. Overlapping international reporting standards create uncertainty and administrative burden for the companies and investors and should be aligned. The new EU taxonomy system should be the core of this process. Therefore, the taxonomy system shall cover all economic activities and sectors currently not yet included. It shall allow investment decarbonising energy production, including through modern gas powered installations, in a transitory phase, aimed at accelerating the phase out of coal-based production. The European Investment Bank plays a crucial role in mobilising investments to finance the climate transition and help support the EU to deliver on the long-term goals of the European Green Deal.

To be truly effective in tackling a global problem like climate change, the sustainable finance must be scaled up through international cooperation and coordination. Countries should link their sustainable financing requirements to global sources of funding and thus generate sustainable economic growth. EU Member States should follow a cost optimal roadmap that would enable them to achieve climate goals collectively by pooling each other's comparative advantages thus lowering transition costs.

Guiding principles of the EU sustainable finance should be to ensure that money goes to projects that can make a great difference, avoid crowding out market financing, establishing good reporting and monitoring system, reducing administrative burden on SMEs, secure outside funding and private investments, promote uptake of sustainable technologies without sacrificing growth and stability.

Improving the quality of life through clean environment and circularity

Quality of life must be placed at the centre of our policies. Cutting pollution of water, air and soil, restoring biodiversity and boosting the efficient use of resources by moving towards a circular economy must constitute a key element of the sustainable transformation. Updating the EU environmental standards and corresponding targets in line with the international recommendations is a necessary step to protect the

environment as well as the health of the citizens while relying on science-based impact assessment. The Zero Emissions Action Plan should reflect the increased ambition and be a key component of the recovery and resilience plan. However, it must be carefully considered whether high pollution levels are due to the lack of incentives or the affordability and availability of filtration technologies or cleaner alternatives. All measures have to be proportionate and coherent with other policy areas. Reporting and monitoring of the data need to be better aligned and integrated, especially in view of transboundary pollution. Instead of imposing bans, we should reward companies and suppliers who want to change their production.

Achieving green growth will be possible only with a transition towards resource-efficient circular economy and decoupling of the economic growth from the use of resources. 45% of emissions come from extraction of raw materials and making them into products. Recycling, reusing and recovery of raw materials, improving efficiency and preventing waste through eco-design and innovation will benefit people, environment and the businesses and must be translated into a fair price signal. The circular economy action plan should be a growth strategy where protecting the environment is achieved while respecting social structures and preserving economic viability. We should avoid blanket bans of certain materials such as plastic or chemicals and instead focus on improving its use and recycling as, when used correctly, they can contribute to sustainability and innovation. Complexity of certain materials should be addressed through better design. To support local jobs, we should consider distance of transportation routes and encourage regional supply chains with locally sources materials. At the same time, we must pay more attention to public procurement process.

Empower research and innovation

Research and innovation hold the key to unlocking the benefits of low carbon economy. Horizon Europe as the biggest framework programme worth 95 billion euro, out of which 15 billion is earmarked for climate, energy and mobility, is the main instrument to deliver on breakthrough innovations. The EPP calls on the EU to boost industry-wide innovation and encourage synergies for deploying early technology. Increasing public and private investments in research and development that aim to drive down the cost of technologies such as direct air capture will be critical to achieving net-zero emissions by 2050. We must accelerate commercialisation of technologies which are not yet sufficiently effective or affordable to be deployed at scale, such as clean hydrogen, advanced battery storage or

zero emission fuels. At the same time, we need to highlight the importance of partnerships with industry and within member states. Innovations need societal acceptance and citizen engagement. Intergovernmental initiatives such as Mission Innovation or the European innovation partnership groups are crucial to mobilise public-private action and investment through sector-specific goals that accelerate the development of clean energy solutions, improve their affordability and develop pathways to their deployment. In agriculture, precision farming provides immediate benefits in improving resource efficiency. Investments in further economic incentives will be needed for reorganised land use to generate negative emissions through efforts such as reforestation and rewilding. Improving the digital infrastructure and broadband coverage is essential for further progress as is the use of satellite technologies and Earth observation. The use of smart meters, artificial intelligence and internet of things can further reduce energy consumption and improve energy efficiency. Market fragmentation has been a problem for the start-ups and must be urgently addressed. Favourable tax regimes for innovative solutions should be considered.

EU leading the global change

All the efforts envisaged above will not be enough if the EU's international partners do not step-up their ambition too. Worldwide, the EU is accountable for less than 10% of the carbon emissions and has been steadily reducing them in the last decade while the other major emitters followed an opposite trend. This poses a challenge to the international competition and opens the door to carbon leakage, exporting the EU's carbon emissions by moving the production to countries with less stringent climate measures. Factoring the carbon cost of products imported to the EU should contribute to a level playing-field and the EPP welcomes the proposal on carbon border adjustments in line with the WTO rules and carefully considers its environmental, economic and social impacts while assessing its coherence with the EU ETS. It should also avoid placing any further administrative burden on SMEs. Trade partnerships are an important instrument for further advancement of the low carbon transition and the EPP supports that all the EU's future trade agreements shall pursue the objectives of the Paris Agreement.

The EU should continue its climate diplomacy to pursue the implementation of the Paris Agreement and the Sustainable Development Goals on all international fora. The EU should present its example as a success story of how economic growth can be achieved with a successful climate policy at the same time. China's pledge to become carbon-neutral by

2060 and US' recommitment to the Paris Agreement and a new goal to cut their greenhouse gas emissions in half by 2030, are an encouraging sign but do not measure up to the EU's ambition. The EU must maintain pressure on its international partners and the EPP strongly asks for the appointment of a high-level special envoy that solely focuses on international climate policy, similar to the US special envoy. For the implementation of the Paris Agreement, and particularly in view of the upcoming UNFCCC COP27 meeting in Sharm El-Sheikh, Egypt, it is urgent to deliver on the nationally determined contributions (NDCs), long-term strategies and finance commitments. The EU should harness its regulatory power and engage with emerging economies as the greatest progress can be made in decarbonising their energy and transport sectors. Particular attention needs to be paid to the impact of climate change on the developing world, specifically in Africa. We must prioritise green investments in development policy and support education, skills and training for future-proof jobs, which will also have an effect on population growth. Only a global effort can stop global warming and tackle climate change. EPP is committed to lead the sustainable transition towards a climate-neutral future.