EUROCHAMBRES

# Position Paper

**19 September 2019**

## EUROCHAMBRES Position on the European long-term Climate Strategy

**EUROCHAMBRES, the Association of European Chambers of Commerce and Industry are convinced that the proposed long-term vision for a prosperous, modern, competitive and climate-neutral economy provides a good basis for further and deeper debate on the EU's future climate policies. The European economy is a crucial partner in the ongoing climate and energy transition, which is why we welcome the approach to assess a broad spectrum of technologies and measures, in a strive to strengthen and consolidate Europe as an excellent and sustainable business location.**

The vision "A Clean Planet for all" is intended to replace the 2011 "Roadmap to a low-carbon economy by 2050". In March 2018 the European Council called upon the Commission to deliver a long-term greenhouse gas emission reduction strategy by the first quarter of 2019. This was also codified in Article 15 of the Regulation for the Governance of the Energy Union concluded at the end of 2018.

The vision expands on 8 scenarios of different technologies and combinations thereof as well as 7 strategic building blocks, which form the basis for every scenario. The first 5 scenarios each follow a specific technological pathway: electrification, hydrogen, power-to-x, energy efficiency, circular economy, while scenario 6 combines the technologies of scenarios 1-4. Scenario 7 adds Carbon Capture and Storage (CCS) and enhanced use of natural carbon sinks on top of that and scenario 8 adds a stronger element of circular economy as well as substantial lifestyle changes. The first 5 scenarios reach around 80% of greenhouse gas emissions reduction, the 6$^{th}$ one reaches 90% reduction and scenarios 7 and 8 attain net zero emissions by 2050. The final outcome will most probably be a combination of several of these scenarios.

The 7 strategic building blocks include the maximisation of energy efficiency, maximisation of the deployment of renewable energy, clean, safe and connected mobility, a competitive industry and circular economy, a smart network infrastructure, fully developing the bio-economy and carbon sinks as well as using CCUS.

**From EUROCHAMBRES' point of view, the vision includes a number of key points, which will have to be further discussed:**

- In the reference scenario, i.e. with existing legislation and measures, the Commission calculates that the EU could reach -45% greenhouse gas emissions by 2030 and -60% by 2050.
- The document puts an emphasis on investment needs and the economic aspects of the transition, in particular cost-efficiency of measures. According to the analysis, the EU GDP is expected to

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double until 2050, even if it fully decarbonises. An extra 0.8% of GDP would need to be invested (up from currently 2%), which would lead to 2% additional GDP in 2050.
- The deployment of digital solutions, expansion of inter-connections and smart networks is essential in all scenarios assessed.
- All scenarios are based on the decarbonisation of the power sector and electrification is one of the key elements for the decarbonisation of the energy intensive industry. In addition, all scenarios incorporate nuclear technology and CCUS.
- According to the Commission's assessment, the transition will create more jobs in a number of sectors and regions while it leads to job losses and requires changes in the skillset in others. This will present a challenge, especially for lower income member states.

**In order to comply with the Paris Agreement EUROCHAMBRES have a number of comments and recommendations:**

### 1. Legal consistency and coherence are essential

The Commission has to evaluate the National Energy and Climate Plans (NECPs), which will have to be submitted by the member states by the end of 2019, in a transparent and consistent manner based on common criteria. In order to preserve legal coherence and to ensure that, once the EU climate strategy is finalised, policies across the board are in line, it also has to make sure that future legislative files are elaborated in a coherent framework, taking account of the numerous interdependencies of different dossiers. The agendas of climate, competitiveness and security of supply in terms of energy, raw materials and skilled labour have to be connected. Growth policy has to be adapted to the climate agenda, in particular it has to be ensured that administrative and cost burden for European companies does not lead to a loss in global competitiveness. This also means that departments across the Commission and other EU Institutions have to increase their efforts to align and streamline their work.

### 2. Planning security is crucial for businesses

In order for the economy to contribute to and benefit from the transition efforts, it is of the highest importance to ensure planning security for businesses. EUROCHAMBRES therefore call the co-legislators to define clear, long-term signals and oppose stricter decarbonisation objectives for the year 2030. We therefore appreciate that the Commission does not intend to revise these targets in its long-term vision. Discussions should now focus on the framework conditions needed for the achievement of the already ambitious 2030 EU targets. Measures need to be based on proper and in-depth economic and ecologic impact assessment, taking into account the global context.

### 3. A successful transition needs the right investment framework

Modernisation and decarbonisation of the European economy needs substantial additional investment. Private investment has to be incentivised and equal access to finance for all types of companies and technologies has to be ensured. Chambers underline their support for an enabling financial framework as opposed to a punishing one. In addition, we underline that especially for SMEs the additional administrative burden must be kept at a minimum.

### 4. Climate and Industrial Policy have to be aligned

The European industry is the engine of the ecological transition. Energy infrastructure, secure and affordable access to energy, sustainable access to raw materials, the right set of labour skills, an enabling investment framework and last but not least an ambitious innovation agenda play a crucial role in its competitiveness. The EU's future industrial strategy must be based on a thorough analysis of sectoral value chains and take into account the fact that EU industries are competing worldwide, while being developed in line with the climate vision.

### 5. Market principle must prevail

Given the right framework conditions, a free and competitive market ensures the most efficient resource allocation. The European and global energy and environment policy must rest upon market-based solutions. The European Emissions Trading System is designed to be the central, market-based instrument of the EU to achieve its climate targets. In order to maintain market integrity it is important to prevent additional burdens put in place by regional or local authorities. EUROCHAMBRES emphasise that a hybrid between a volume-based and price-regulated system must be avoided. In addition, the EU should strive to establish a global CO2 market to avoid any competitive disadvantage for European companies. Article 6 of the Paris Agreement should be operationalised as soon as possible. As for energy policy, the energy only market should be strengthened as the central pillar of the EU's electricity market design. Capacity mechanisms should be a measure of last resort, temporary and cross-border, as required by the new EU rules on market design. It's the Commission's role to effectively monitor transposition into national law of the member states.

### 6. Win global partners on the road to 2050

The EU affirms its leading role in the fight against the adverse impacts of climate change. The European business community is committed to contribute its fair share. Yet, EUROCHAMBRES are convinced that the successful transition to a climate-neutral economy will only be possible in cooperation with global partners. The best way to get other world regions on board for an ambitious climate and energy agenda for 2050 is to demonstrate the viability of a European sustainable business model. This will equally increase acceptance in society as a whole.

### 7. Technology neutrality is key

In addition to the right investment conditions, huge research and development efforts will be necessary to enable the EU economy to fully reap the benefits of its innovative potential. We therefore welcome the envisaged research and innovation agenda. Its implementation has to be a top priority of the next legislative term. In doing so and to ensure a successful ecological transition, technological pathways mustn't be restricted. At the moment it is difficult to assess which break-through-technologies will evolve, whether or not they will prevail and what they can contribute. In general however, efficiency rate and the technological as well as ecological potential of technical solutions (e.g. availability of the feedstock) has to be taken into account next to the cost components, especially with regards to energy efficiency measures and the circular economy.

### 8. Create optimal conditions for uptake of technologies

In addition to ensuring a large variety of potential solutions, it is crucial to create encouraging market conditions for their wide-spread uptake. E.g. in the mobility sector, there is a number of alternative propulsion technologies, however their market penetration remains relatively low. Disadvantages for alternative energy carriers through taxation requirements and unjustified legislative restrictions have to be avoided.

### 9. Enable companies to access cost-competitive low carbon energy

Low carbon energy will play a central role in the EU's future energy system, as shown by all scenarios elaborated by the Commission. It should therefore be a primary target for the EU to ensure its cost-competitive supply through market-driven deployment.
With regards to the electrification of the economy and especially of some industrial processes, which will substantially increase the demand for (renewable) electricity, the question arises as to the sources of low carbon energy. Together with electrification, the research, development and market introduction of small and large scale, intraday and seasonal storage and control systems to connect energy producers, storage facilities and consumers, has to be accelerated. The future energy system needs to be centred around all available and cost-efficient flexibility options, of which demand response and self-consumption are essential

ones. Competitive energy markets are a key enabler, if they offer fair and equal opportunities for participation to all actors. Therefore market barriers to a more active participation of consumers in the energy markets should urgently be reduced. The improved regulatory framework for self-consumption, including for instance the legislative upgrade of renewable energy communities and aggregators who facilitate the energy market participation for companies, needs to be enhanced. This must be a key element of the Clean Energy for All Europeans Package's national implementation, which offers a great opportunity.

**10. Facilitate local action**

Local action by communities and companies are already gaining pace and may become even more important in the near future. In addition to the already mentioned legislative upgrade of renewable energy communities, the Commission should also strive to strengthen local action, e.g. by the elaboration of guidelines for the member states. Chambers of Commerce should be an integral part of such an exercise. They are in a position to proactively support the European, national, regional and local authorities in order to ensure that bottom-up initiatives are developed according to both environmental and economic sustainability (i.e. in line with the needs of the respective business communities on the one hand and taking into account the 'bigger picture' of European competitiveness on the other).

**11. Use the full potential of digitalisation**

Flexibility of energy supply and demand and smart grid management will be necessary to further decarbonise the energy sector. Process-optimisation and sector-coupling will contribute to a low-carbon industry. Thanks to the innovation driven by digitalisation, such as Industry 4.0, new business models will arise and cost-efficiency of a number of key technologies will increase. One of the top priorities of the next Commission must therefore be a globally competitive digital infrastructure.

**12. Carbon leakage protection needs to be guaranteed**

The issue of carbon leakage is not sufficiently addressed in the Commission's long-term strategy.
The Paris agreement is a diplomatic success, but it is far from being a guarantee for ambitious climate-action world-wide. Many countries outside the EU have not underpinned their target promises in their nationally determined contributions (NDC) with concrete policies. Consequently, the significance of effective carbon leakage protection for EU companies is expected to increase in the light of continuously ambitious targets and effective policies in Europe. Carbon leakage prevention mechanisms in the EU emission trading system need to be maintained and potentially even strengthened. The revision of the guidelines on state aid for environmental protection and energy should also aim at strengthening the competitiveness of European companies, in particular the energy-intensive industry.
Trade-restrictive measures such as border tax adjustment bear the risk of being abused as vehicles for protectionism. The EU should remain entirely committed to a rules-based and free world trade system. European companies make a big contribution to the global fight against climate change with exports of technologies and services reducing the climate impact of businesses, public authorities and households.

**13. Leverage the potential of low-carbon gas technologies**

Research and development efforts in relation to low carbon fuels, hydrogen, renewable gas and all forms of power-to-X which can be used both as storage medium and energy carrier, have to be increased. Low carbon fuels, green and blue hydrogen have the potential to be used as feedstock and fuel especially in the industry and mobility sector. It can also help to decarbonise the transport sector. Hydrogen can also be a good complement to the intermittent production of renewable electricity. Costs, efficiency loss and total production potential have to be taken into consideration. Higher use of biomass for energy production will increase impacts on land usage as well as land use competition, which could increase our import demand for these resources from third countries.
Power-to-X will play an important role in terms of energy storage but also in terms of sector-coupling. Gas will be an essential resource for industry also in the future. Only a comprehensive gas infrastructure

(encompassing production, grid, storage) and functioning market can ensure the effective uptake of renewable or decarbonised gas.

### 14. Improve public acceptance of Carbon Capture, Utilisation and Storage (CCUS)

When it comes to BECCS (bio-energy and carbon capture and storage), it has to be noted that the prospects of this technology are still far from being fully evaluated, both economically and ecologically. BECCS is not yet economically viable at this stage. In addition, its effect on biodiversity and land usage are not understood to a sufficient extent. Nonetheless, European Chambers believe that this is also closely linked to the successful implementation of the bio-economy strategy in the EU. For its part, CCS technology has been demonstrated at commercial scale, on a limited basis. However, current market drivers and government policies are not adequate to incentivise its widespread deployment. It will benefit from increased government support including durable incentives and an enabling regulatory framework. Continued discussions on the necessary framework for CC(U)S will therefore be necessary. Also, the efforts to remove barriers to transboundary transport of sequestered carbon have to be intensified, e.g. by working actively towards the adoption of the 2009 amendment to the London Protocol on the Prevention of Marine Pollution.
Last but not least, from our perspective it is questionable whether a change in lifestyle and consumption pattern to the extent mentioned is realistic. In addition, in some members states technologies like BECCS/CCUS face fierce opposition from civil society. Awareness raising and information can capture and engage people, whereas forced solutions can only be sustainable where no alternative policy measures are available to achieve the desired outcome and their economic effects have to be thoroughly assessed beforehand. Otherwise they may be detrimental to European welfare.

### 15. Ensure a functioning Circular Economy & sustainable access to raw materials

Compliance with the Paris Agreement requires the biggest structural change since the Industrial Revolution. It will require massive investments in low-carbon energy installations and alternative feedstock and sources of raw materials for industrial processes. The World Bank has estimated that demand for certain raw materials, many of which considered critical, will increase ten-fold by 2050 due to the ecological transition. Therefore, there is a need for concerted action within the EU to ensure that the decarbonisation of our societies is not hampered by the unavailability of some of these key resources.
A full-fledged Circular Economy can ensure that valuable materials are kept within value chains. Future measures for its further development must focus on the creation of a fully functioning secondary raw materials market. Barriers to cross-border trade of waste and recycled material still persist between member states. In addition, the regulatory inconsistencies between chemical, product and waste legislation have to be tackled more vigorously. First steps in this direction have to be intensified. Please find our full list of policy recommendations for the Circular Economy here.



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