Contribution to the debate on the Industrial Strategy

Brussels, 18th February 2020

Dear Vice President Timmermans,
Dear Mr Samsom,
Dear Mr Petriccione,

Civil Society Organisations' recommendations for the new EU Industrial Strategy - *Making the new European industrial strategy an enabler of a just transition to a carbon neutral, circular and zero-pollution economy*

Europe faces a climate and environmental crisis. Scientists, experts, the political classes and civil society all agree that we urgently need to decarbonise all sectors of our economy if we want to avert the worst consequences of a climate breakdown, address pollution emissions to avoid major health impacts, and biodiversity loss to avoid ecosystem tipping points that will undermine nature's, societies' and the economies' resilience.

The call from European citizens across all countries has resonated in political commitments by all relevant EU institutions and several Member States to achieve carbon neutrality, to increase 2030 climate targets and to move towards a toxic and pollution-free environment. We CSOs believe Europe should reach climate neutrality by 2040 and increase its 2030 climate target to at least -65% emission to be in line with the 1.5°C target of the Paris Agreement and zero-pollution environment by 2030.

The moment is now: Europe has a unique opportunity to undertake the legislative effort that will be conducive to climate neutrality in the industrial sector and zero-pollution environment as soon as possible. Such effort requires a holistic and consistent approach both **across the inter-connected priorities of the European Green Deal** and across **all policy areas which are most relevant for industry**: climate, energy, chemicals, environment, competition/State Aid, trade, finance, taxation, regional development and employment.

The upcoming **EU Industrial Strategy** needs to be a key pillar of the European Green Deal and be embedded in the "Climate Law', integrate the commitment to transition from a linear to a zero-pollution circular economy.

We believe that a Paris-compatible industrial framework needs to establish **an overall emissions trajectory towards net zero in 2050 with intermediate milestones**, adjusting to the possible increase of EU 2030 climate ambition and **mandate all sectors covered to develop sectoral long term strategies** in line with the climate neutrality objective and with financial and strategic plans that allow for fair transition in affected areas. To this purpose, the **industrial strategy must be a key element in the necessary revision of the EU's 2030 GHG emissions target,** ideally with 65% greenhouse gas emission reductions compared to 1990 levels.

Furthermore, the regulatory framework that will result from this strategy must **strengthen industrial synergies between the related EU climate and chemicals regulations**, **and it should fully integrate the promised transformation from a linear to a circular economy** to encourage due changes in business models and practices.

The Industrial Strategy of the next decade will have to enable Europe to become a **world leader on climate-neutral technology, clean production and safe products, including circular economy solutions** and can contribute substantially to EU social cohesion and wealth. Therefore, it will go much further than environmental

protection: getting the Industrial Strategy right in the European Green Deal will boost jobs and opportunities, safeguard our climate and environment for future generations and become an era-defining policy that will rebuild trust in EU institutions in the eyes of European citizens.

We have identified below ten concrete priority measures across the value chain:

1. **Promote a transition towards a circular economy with a zero-waste objective:** accelerate the uptake of non-toxic circular economy practices, primarily in the Building and Construction sector, along with business models that ensure an effective interface between product design, production, chemicals and waste.

Feedstock/primary sector:

2. **Support renewable H_2 and sustainable biomethane:** we need to be realistic as to likely volumes, prioritise for essential uses, and not use the prospects of these gases as an argument to keep investing in fossil gas grid infrastructure which will lock in emissions and compromise the Paris agreement.
3. **Make targeted use of biomass, avoiding a repeat of biofuels policy failings**: integrate environmental concerns into decision making and avoid biodiversity loss.

Grid/energy:

4. **Promote a 100% renewable grid:** Having a fully decarbonised grid will facilitate industry's ability to decarbonise.

Industrial processes:

5. **Increase electrification of processes and reduce energy demand:** improve energy efficiency and shift to renewables through electrification.
6. **Secure increased materials safety and efficiency:** to reduce resource and detoxify inputs and support competitiveness.
7. **Promote production improvements**: taking advantage of the most advanced innovations to improve industrial process design.
8. **Limit and target the use of CCS and CCUS** to those process emissions for which there are no alternative mitigation options, considering its high costs and the technological risks.

Horizontal measures:

9. **Embrace digitalisation** solutions to facilitate the transition.
10. **Identify and engage multiple champions to drive forward the industrial transformation and needed system change.**

These measures will help implement **key additional horizontal policy recommendations which we have elaborated in the attached Annex.**

We look forward to having the opportunity to meet you and discuss our proposals in more detail over the coming months.

Yours faithfully,

European Environmental Bureau
Carbon Marketwatch
Sciaena
Ecos
Bond Beter LeefMilieu
Sandbag
WWF - EPO
Climate Action Network Europe

Annex: Horizontal policy recommendations for the EU Industrial Strategy

Implement an effective governance

- An **independent observatory** composed of relevant stakeholders, including civil society organisations should be established to continually monitor progress towards climate neutrality objective and suggest corrective measures in an evidence-based, inclusive and transparent manner should real emissions deviate from the trajectory.

Make the most of available technology options for carbon neutrality and clean production

- **Energy and materials efficiency first** needs to be the key principles in the EU Industrial Strategy.
- **Fuel switching and increased renewable electrification remain low hanging fruit of industrial decarbonisation** and should be the starting point of any strategy. The Strategy needs to map out concrete steps to phase out fossil-based energy from industrial processes and maximise the uptake of renewable heat and power.
- **Invest in an infrastructure for a 100% renewable energy system, capitalising on the their highly competitive costs. Aim to transition to a 100% renewable energy supply by 2040 at the latest.** Major investment in renewables will make it easier for industry to decarbonise overall as the electricity feedstock is carbon neutral. Digitalisation, smart grids, and smart appliances can support this transformation.
- **Renewable Hydrogen** will have a role to play in the decarbonisation of some key energy-intensive industries (i.e. steel, cement and iron) by helping them to reduce their process emissions. However, its production is now costly and resources are limited. Over 95% of current hydrogen production is fossil-fuel based. The switch towards **hydrogen should not be a justification to support further spending on "upgrading" the gas infrastructure, instead of calling for the rapid fossil-fuels phase out.** Furthermore, it is highly unlikely that hydrogen will be able to compete with imports of gas from Russia and the middle east, so for a truly carbon neutral (gas) grid, priority should be given to electrification and shifting away from gas where feasible. A major opportunity to dedicate the limited quantities of renewable gas to energy-intensive industrial processes lies in converting domestic and commercial heating away from gas and towards heat pumps, via the eco-design directive, and district heating.
- Last year, the High Level Group on Energy Intensive Industries presented a **Masterplan towards a climate-neutral, circular economy by 2050**. First, it needs to be stressed that the **EU Industrial Strategy is not solely about enabling the transition of energy-intensive industries, but about a broader industrial base which includes SMEs, as well as communities of industrial regions**. While the Masterplan advocates for push-pull measures, the document mainly highlights increased support for frontrunners within industry rather than considering measures to encourage the worst performers to catch up. As we witness an unprecedented request for public funding to radically transform a very carbon-intensive sector, we believe compulsory phase-out of the least performing products and processes should be put in place. This could be done according to a defined timeline and on the basis of progressive ambitions on environmental performances, as it is the case, for instance, for ecodesign measures. This would prevent the possibility for companies to be financed for pilot projects for an undefined time span while at the same time they would still be producing BAT products with high climate impact.
- Given the existing array of technologies and very long investment cycles in resource and energy-intensive industries, **a set of no-regrets options, such as maximisation of renewable energy uptake and performance targets for increased circularity, should be prioritised** in the transition and not be any further delayed under the pretext of technological neutrality.

Stop pollution alongside climate emissions

- **The Industrial Strategy must be aligned with the EU goal of zero-pollution** and address the hazardous chemicals problem across sectors as well as aligned with the hierarchy of actions in risk management that prioritises exposure prevention, elimination and substitution over control measures;
- **As the chemicals sector progresses towards climate neutrality, protection of human health and the environment should remain the main objective of the strategy.** Building on the precautionary principle, the substitution of hazardous chemicals and prevention of emissions of harmful chemicals to the environment should be promoted instead of mere substitution with climate neutral products;
- The strategy should **accelerate the EU plans for** of the different EU legislations and policies and promote financial incentives for and promote sustainability throughout the production chain.
- The Industrial Strategy should **improve transparency and ensure access to all information** relevant to understand the health and environmental impact of industrial production. Linking with the Circular Economy Action Plan it should come forward with proposals to **detoxify the circular economy and to track the uptake of pollution prevention techniques within industry.**

Ensure coherence across all policy areas

- **Circular Economy and non-toxic material cycles are key aspirations for the European industrial economy.** Circular production and consumption of resource and energy-intensive materials has emerged as one of the most promising and quick ways to decarbonize industrial value chains and dovetails with material efficiency and sufficiency. A 2019 report by Material Economics found that Circular Economy measures can more than halve the emissions from the steel, plastics, aluminium and cement sectors by 2050. Although other tools are needed to reach full decarbonization (green feedstock and energy, H_2, and CCS to a limited extend) the report clearly indicates circular economy is an industrial priority.
- Reducing greenhouse gas pollution should go hand in hand with other environmental commitments outlined in the Green Deal such as the **zero-pollution ambition and the preservation and restoration of biodiversity**; efforts must be made to limit all environmental impacts, throughout the whole value chain, including the primary sector (i.e. impacts of mining/deep sea mining).

Get international competitiveness right

- Full decarbonization (net zero) of Energy-Intensive sectors such as steel is technically achievable by 2040 and should be promoted alongside other **economic priorities such as European independence from imports on strategic materials.**
- Industrial emissions covered by the EU Emissions Trading System (EU ETS) have been stagnating in the last 7 years and past and **current debates have been focusing rather on protection against international competitiveness than on creating incentives for industry to transform and deeply decarbonise**. However, free allocation of ETS emission allowances has been extremely untargeted and led to windfall profits in de sectors concerned. Paradoxically, this has increased the risk that Europe is losing its competitiveness for clean and climate-neutral technologies in the medium term. China is already outperforming the EU when it comes to low carbon investment: By 2015 China had already caught up with EU on investment in clean energy and overtaken the EU on renewable energy build rates, research and development;
- International competitiveness and carbon leakage concerns must be evidenced and independently substantiated. If the evidence shows a direct link between existing EU climate policies and increasing unfair international competition, complementary measures must not undermine carbon price signals, investments and technological transformations required to enable the needed emission cuts. If the proportional **border adjustment mechanism** promised in the EGD will be implemented, this needs to be designed and

implemented to facilitate EU climate ambition and facilitate the business case for low carbon transitions in industry;

Address Small and Medium Enterprises (SMEs)

- **With regard to SMEs, it will be crucial to ensure consistency between the National Energy and Climate Plans (NECPs) and the industrial strategy**. SMEs are a very important part of the European economy, as they represent around 99% of all enterprises and employ an increasing number of people. The industrial strategy should therefore address SMEs and in particular, it should identify ways in which SMEs can contribute to greenhouse gas emission reductions in the EU. Even though SMEs are not the largest emitters in Europe, they make up for most of the business and trade share within and outside the single market. As SMEs are mainly covered in the Effort Sharing Regulation, policies and measures to reduce emissions and increase energy efficiency in SMEs are (should be) included in member states' NECPs. The industrial strategy should make sure to complement such efforts and policies and provide additional tools that enable SMEs to keep up and contribute to the transition to a climate neutral economy.
- **A relatively small number of SMEs is covered under EU Emission Trading System (ETS).** However, under Article 27 of the Directive 2003/87/EC, the possibility for small installations and hospitals to be excluded from the coverage of the system is granted but only where equivalent measures for GHG emissions reduction are in place (i.e. national measures under ESR). This flexibility was introduced to reduce the administrative burden of complying with ETS rules for small and medium installations.

Secure a financial framework aligned with climate neutrality

- **Additional transformative public funding, either under the Innovation Fund or dedicated EU funds** need to be restricted to lead projects that demonstrate the **highest abatement potential and avoid stranded assets** and a lock-in of fossil fuel infrastructure.
- **Subsidies for fossil fuels under all forms (taxation incentives or exemptions, State aid) need to be phased out rapidly** and shifted to encourage a swift maximisation of renewables-powered electrification of industrial processes and value streams.

Improve the carbon pricing framework for a faster decarbonization

- The **negative externalities of carbon emissions need to be fully reflected in the price for pollution**. The practice of insufficiently targeted and overgenerous handouts of free allowances to carbon-intensive industry sectors needs to stop.
- **Should a border carbon adjustment** be introduced, it would need to take into account the following: i) its introduction would need to go hand in hand with a full phase out of free allowances, ii) it would need to be accompanied by diplomatic efforts to steer the targeted country/countries towards better implementation of the Paris Agreement, iii) negative impacts on most vulnerable nations would need to be mitigated as much as possible (either with explicit exemptions or by earmarking revenues fully for targeted international climate protection assistance).

Ensure a Just Transition for phasing out fossil fuels

- **The transition to a carbon neutral industry has to be a socially just transition.** It coincides with market and technology driven changes with implications for the future of work.
- This requires that **efforts in social and regional development go hand in hand with improving climate and environmental policy.** This includes new training and skills development for workers, the creation of

alternative sources of employment by diversifying opportunities through carbon neutral and zero pollution ambitions, and investments in job creation in the agro-ecological sector and an active restoration agenda.

- Without active management, the costs and benefits of the transition will be spread unevenly, often most negatively impacting those communities which are already most vulnerable. Whilst new jobs in decarbonised industry are expected, these will require new skill sets and, in some areas, **net job losses must be anticipated and measures put in place to facilitate the transition to alternative employment.**
- We welcome the creation of the Just Transition Mechanism but acknowledge that it's not a silver bullet. It will only be useful if we use it in the right way. This means all three pillars of a just transition must exclude fossil fuel investments, including in natural gas, and spending should be consistent with achieving climate neutrality and limiting global heating to no more than 1.5 degrees, whilst empowering regions and municipalities to design bespoke just transition plans and projects. Furthermore, the entire EU budget, other EU funds, EIB, ETS auctioning revenues, national and private investment funds, need to enable a just transition. The Just Transition Mechanism should also be complemented by broader measures which ensure a holistic approach is taken to the transition in the form of comprehensive, locally-developed transition plans. **Support for the transition should be contingent on the existence of such plans or should support their development.**