A new European Industrial Strategy

- Ten top asks from WWF and Carbon Market Watch -

March 2020

The EU Industrial Strategy[1] is the first sector-specific plan to be published since the European Green Deal announcement. The Strategy is the opportunity to set the EU economy in the direction of climate neutrality[2], as proposed under the EU Climate Law. It is a chance to put climate action at the heart of industrial policy and tackle the emissions of the EU's most polluting industries - the 'Energy Intensive Industries' or EIIs - which are accountable for about 16% of EU total annual CO2.[3] To link competitiveness and climate ambition effectively on a path to climate neutrality, the EU Industrial Strategy must be designed in a comprehensive way. There is a need for strong investment signals now in EIIs, especially in sectors with particular relevance to climate action such as chemicals, steel and cement. These sectors alone represent 60% of all industrial GHG emissions and most of their European plants will need to be refurbished or replaced in the course of the next decade. Investment in zero-carbon technologies must take place in the upcoming investment cycle in order to reach climate neutrality on time.

To decarbonise the EU Energy Intensive Industries on time, the new EU Industrial Strategy will need to:

1. **Be designed in line with the climate neutrality target and implement an Independent Observatory to set clear targets and continually monitor EU Energy Intensive Industries' (EIIs) progresses** towards decarbonisation
2. **Support strong EU and national innovation policies** to enable the commercialisation of zero-carbon technologies as soon as possible
3. **Create lead markets for zero-carbon technologies,** by improving e.g. public procurement rules
4. **Promote circularity and material efficiency for Energy Intensive Industries (EIIs)**, by introducing e.g. recycling targets
5. **Implement emission performance standards** to drive the race to the top on emissions reductions and facilitate the uptake of zero-carbon solutions
6. **Support and define sustainable and targeted uses of renewable hydrogen**
7. **Set out clear conditions and strict criteria for the deployment of Carbon Capture and Storage (CCS)** to mitigate unavoidable process emissions
8. **Improve the carbon pricing framework** to make polluters pay and to provide an effective incentive for industry to decarbonise

[1]The upcoming new EU Industrial Strategy is expected to be published on 10 March, together with the new EU Circular Economy plan.

[2]The European Council adopted Net zero goal by 2050 on 13 December 2019. At the same time NGOs advocate for carbon neutrality by 2040 at the latest, See WWF position, The EU's long term climate strategy (July 2018).

[3]Based on data from the EEA report, Trends and projections in Europe 2019, Tracking progresses towards Europe's climate and energy targets (November 2019).

9. **Implement a Border Carbon Adjustment (BCA) only as an alternative to free allocations**
10. **Ensure a well-designed Just Transition Mechanism,** excluding fossil fuel investments

1. **Design the strategy in line with the climate neutrality target and implement an Independent Observatory to set clear targets and continually monitor EU Energy Intensive Industries' (EIIs) progresses**

   The new EU Industrial Strategy should **be clearly designed to implement the Climate Law ambitions and the long-term target to achieve carbon-neutrality**. To guarantee this implementation, the EU Industrial Strategy should set **clear decarbonisation and technology deployment targets for 2030 and 2040** for Energy Intensive Industries (EII). **An Independent Observatory**, composed of relevant stakeholders, including civil society representatives, must be established to monitor progress on industrial transition and ensure policy coherence.

2. **Support a strong EU and national public innovation policies**

   Enhance a strong public innovation policy targeted towards **market introduction of zero-carbon technologies**. A strong investment framework must consist of a **robust innovation fund** co-funding investment and other instruments to mitigate the higher operational costs for zero-carbon technologies (such as **Carbon Contracts for Differences (CCfDs))**. This will ensure the commercialisation of zero-carbon technologies at a large scale and within time frames necessary for effective climate mitigation. Both innovation fund and CCfDs must be applied only to zero- carbon technologies and exclude support for fossil lock-in technologies in order to create the most impact for emissions reduction and ensure stringent governance.

3. **Create lead markets for zero-carbon technologies**

   Support the purchase of zero-carbon materials through **an improvement of public procurement rules** and the introduction of norms, quotas and standards for zero-carbon materials to create lead markets for zero-carbon technologies, especially for chemicals, steel and cement sectors.

4. **Promote circularity and material efficiency for Energy Intensive Industries (EII)**

   Energy-intensive sectors like steel, plastics, aluminium or cement, have **the potential to reduce European emissions by 56% (300 MtCO2) annually until 2050**, **provided that they adopt fully circular economy models.**[4] It is therefore paramount that the industrial strategy addresses **circularity** in the energy-intensive industry, by setting for instance a **recycling target**. Introducing an obligation for all semi-finished and finished products to contain a certain percentage of recycled materials, and targets to avoid contamination of waste streams, (e.g. copper in steel scrap) would help reduce the quantity of raw material used and consequently reduce emissions.

5. **Implement emission performance standards**

   Emission performance requirements should also be **applied at material and**

[4]See Material Economics (2018), The Circular Economy - a Powerful Force for Climate Mitigation

product level. **CO2 performance standards and ecodesign standards for carbon-intensive final products** can impose minimum performance standards on the production and consumption of energy-intensive materials. This will ensure greater uptake of zero-carbon and energy efficient solutions on the European single market. Acting across the value chain, these policies would enhance the circular use of materials. **The Industrial Emissions Directive (IED) must be reviewed** to include greenhouse gas performance standards and introduce binding energy efficiency standards based on the best-in-class solutions within a given industrial activity.

6. Support and define sustainable and targeted uses of renewable hydrogen

Renewable hydrogen (from solar and wind) will play a key role in the decarbonisation of some key energy-intensive industries (i.e. steel and basic chemicals). However, **its production is currently costly and resources are limited**. Over 95% of current hydrogen production is fossil-fuels based, and not carbon-neutral. **Priority should be given to direct electrification with renewables and shifting away from gas where feasible**.

7. Set out clear conditions and strict criteria for the deployment of Carbon Capture and Storage (CCS)

The use of Carbon Capture and Storage (CCS) **should be limited to process emissions for which there are no alternative mitigation options**, considering its environmental and technological risks, as well as its high capital and operational costs. Therefore, **any form of deployed CCS should adhere to strict environmental and social safeguards** in order to minimise negative consequences. Moreover, the Industrial Strategy must also define a white list of technologies, outlining which technologies must be favoured, and set priorities for decarbonisation where CCS is not needed.

8. Improve the carbon pricing framework

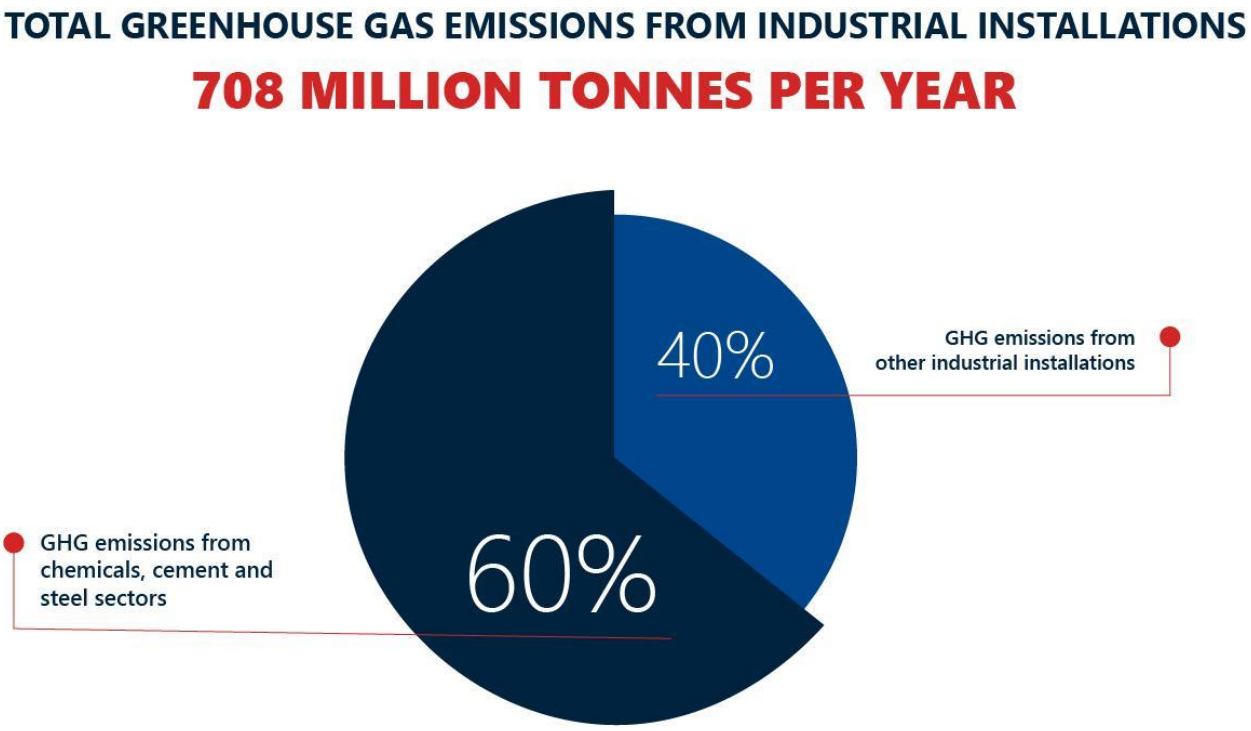
Emissions from EIIs have been stagnating for the last 8 years. Carbon pricing will be effective in driving deep reductions in the EII sector only by ensuring that the **negative externalities of carbon emissions are fully reflected in the price for pollution**. In order to strengthen the current carbon pricing framework, the industrial strategy will need to promote a reform of the EU Emission Trading System. This reform will have to include **increasing the pace at which pollution is reduced annually** (the Linear Reduction Factor), **strengthening the market stability reserve**, **mandating 100% auctioning revenues to be used towards climate action** and **phasing out free allocation of emission allowances.**

9. Implement a Border Carbon Adjustment (BCA) only as an alternative to free allocations

Should a border carbon adjustment be introduced, **it would need to go hand in hand with a full phase out of free allowances**. Moreover, it would need to be accompanied by diplomatic efforts to steer the targeted country/countries towards better implementation of the Paris Agreement. 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).

10. **Ensure a well-designed Just Transition Mechanism**

The Just Transition Mechanism has to ensure a socially just transition, and will only be useful if we use it in the right way. **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. It should be financed by the **entire EU budget, other EU funds, the EIB, ETS auctioning revenues, national and private investment funds**, to enable a just transition. It 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**.



Source: Sandbag (now Ember), 2019 https://ember-climate.org/project/ets-emissions-2018/
Total of EU GHG emissions in the EU in 2017: **4.446 million tonnes**: European Environment Agency, Greenhouse Gas emissions, November 2018

Contacts:
Imke Lübbeke (iluebbeke@wwf.eu)
Camille Maury (cmaury@wwf.eu)
Sam Van den plas (sam.vandenplas@carbonmarketwatch.org)
Agnese Ruggiero (agnese.ruggiero@carbonmarketwatch.org)
Media contacts:
Sarah Azau (sazau@wwf.eu); Tel: +32 473 573 137
Kaisa Amaral (kaisa.amaral@carbonmarketwatch.org); Tel: +32 233 53 664