



BRIEFING FOR COMMISSIONER KADRI SIMSON

MEETING WITH GERMAN INDUSTRY ASSOCIATION BDI

8 July 2021, [Webex]

SCENE SETTER

- You will meet Mr Siegfried Russwurm, President and Director General of the BDI, the main German industry organisation, on 8 July.
- This is follow-up meeting to a conference organised by the BDI on 4 June on energy transition where you gave the opening speech.
- At the conference, the BDI presented its position on the European Green Deal (Annex 1), and a joint position paper with the Italian and French industry organisations (Annex 2).
- The main points of the BDI's position paper were already discussed bilaterally in a meeting with Head of Cabinet Stefano Grassi on 20 April 2021.
- Now in the upcoming meeting, the energy files of the 'Fit for 55'-package, **RED II and EED**, are of particular interest to the BDI, as well as **hydrogen**.

SPEAKING POINTS

- It is a pleasure to follow up on our previous discussions with you on the Fit for 55 package. As the Commission's adoption of the package is imminent, it is a good opportunity to discuss the **state of preparation** of the energy initiatives under the package - with a particular focus on the **revision of REDII and the EED**.
- **2020 was the year of strategies and ambition-setting** – and the urgent need to reduce greenhouse gas emissions in view of decarbonising Europe's economy, in line with our Climate Target Plan.
- **2021 is the year** to align our energy policy framework to the new and higher climate ambition of **at least 55% reduction in greenhouse gas emissions by 2030**. Indeed, the package will align EU legislation with the European Green Deal and to our enhanced ambition in the context of the Paris Agreement.
- We have incrementally built on the ambitions of the European Green Deal, especially its central goal of climate-neutrality by 2050.

- **The first part of the Fit for 55 package is due** next week. It comprises legislative proposals ranging from the revision of **directives** on **energy efficiency** and **renewables**, to the emissions trading system and carbon border adjustment.
- Then, later in the year, we foresee:
 - A targeted revision of the Energy Performance of Buildings Directive
 - Hydrogen and Gas markets Decarbonisation Package
 - A proposal to reduce methane emissions.
- The package addresses climate change head-on, but also offers opportunities in the recovery from the COVID pandemic – opportunities to re-boot the economy in a green and digital way. We want it to create **jobs**, economic **growth** and increase the **competitiveness of EU industries, such as those you represent**.
- From an energy perspective, we are now working on targeted amendments of the **Renewables Directive** and of the **Energy Efficiency Directive**.

RED II

- The revision of RED II aims to strengthen sectors where additional efforts have to be made: **transport** [CTP: 26% in 2030], **buildings and heating and cooling**, as well as **industry**.
- **Industry** uses 25% of energy, and is not yet explicitly covered in RED II. We want to **encourage and incentivise industry** to switch to a renewables-based production process and become climate-neutral in the long run [indicative RES target and binding RFNBO-target].
- We want to promote more renewables in the **heating and cooling and transport sectors** to bring the ambition level in line with the Climate Target Plan. This also includes more focus on **buildings** and **industry** where the pace of uptake of renewables is not where it should be. There is potential for accelerating the transition.
- This includes into, for example, **labelling of industrial products** using renewables to support increased demand for cleaner products. There are more and more claims of renewable energy being used in products. The new measures help to ensure that if such claims are made, they are **reliable** and not simply **greenwashing**.

Promotion of renewable and low carbon fuels

- We are also looking at how to **promote renewable fuels such as hydrogen for hard to-decarbonise sectors**. This includes **industry**, but also sectors such as **aviation and maritime**.
- In particular, we are looking at **certification** of these renewable fuels but also at how to increase their uptake **with sub-targets in those sectors**.
- Last year's strategies on **Energy System Integration** and **Hydrogen** included **definition and certification of renewable hydrogen**, applying a **life-cycle approach**. Commission is currently assessing the modalities to define them in the upcoming **Hydrogen and Gas market Decarbonisation Package**, together with options for their certification as low carbon energy solution.

EED

- Energy efficiency needs to be prioritised in every decarbonisation scenario to increase **energy efficiency efforts to 36-37% for final energy and 39-41% for primary energy consumption**.
- As the EED is the key framework tool of EU energy efficiency policy,

it needs to be strengthened fully benefit from its energy saving potential.

- Article 7 (**energy savings obligations**) has proven to be a key instrument in achieving energy savings in end use – including in buildings and industry, but also in transport. The evaluation of the EED showed that Article 7 was **responsible for almost half of the energy savings up to 2020**.
- With the revision of the EED, the Commission is proposing to make Article 7 **even more effective**, including by foreseeing a **higher annual energy saving target**.
- **Flexibility** in the choice of policy measures by the Member States remains a key element of the revised EED.
- The EED will also look at how to best apply the **Energy Efficiency First Principle** in practical terms together with the forthcoming operational guidance (also planned for adoption in mid-July).
- The starting point of this principle is to consider energy efficiency for **policy, planning or investment decisions**, when these affect energy consumption. Energy efficiency should be treated as a viable option. It needs to be assessed as part of the planned **cost-benefit analysis or impact assessment**.

- **For businesses**, energy efficiency is an opportunity to **lower costs**, while **delivering more, less dependency** on imported resources and new **jobs**.
- It can also improve **global competitiveness** of EU businesses and the market position of businesses that design, produce or offer green products and services.

DEFENSIVE POINTS

Energy State aid guidelines and Energy Intensive users

Under the new CEEAG rules for reductions from energy charges for EIU, around 1000 companies in Germany could stop receiving reductions. The remaining beneficiaries would have to bear almost double the costs. We need to enlarge the scope of the reductions to cover other Green Deal levies and costs such as network charges.

- I am aware that these reductions have played an important role to avoid carbon leakage and I understand that the Commission is not proposing to abolish them. The Commission has opted for increasing the convergence of these rules with recently updated rules addressing similar relocation risks (such as the ETS guidelines).
- However, we need to strike a balance between supporting industries at risk of relocation and ensuring sufficient income to finance decarbonisation and limit competition distortions between European companies in the same sectors. Again, we need to hear from MS and stakeholders what is the most adequate methodology for achieving the right balance.
- A development in the direction that you are requesting is that the draft CEEAG allows for reductions not only for levies financing renewable energy and CHP investments, but also for

all levies financing decarbonisation and social policies, codifying a practice that is not explicitly foreseen in the current guidelines. As such decarbonisation costs are likely to increase with the ambitious objectives of the Green Deal, I think it is important to look at the overall amount of reductions that these energy intensive companies can receive under the new EEAG.

Why does the revision of the REDII introduce an indicative target for the industry sector?

- In the past decade, the industry sector has been the slowest end-use sector for the uptake of renewable energy. Only 9% of the industrial's heating and cooling demand is supplied by renewable energy.
- At the same time, we are entering a crucial decade where investments decision in the industry sector will determine whether it is possible to achieve climate-neutrality by 2050.
- The proposed indicative target will create an investment signal for the industry, and will allow MS to monitor progress in this sector.
- The indicative target is formulated relative to existing consumption of renewable energy in each MS, and as such reflects the specific circumstances of the industrial energy consumption.
- The indicative target considers the direct uptake of renewable energy, as well as efforts through electrification and energy efficiency, and across all industrial sectors. As such, it provides significant degrees of freedom for each Member State to identify the most appropriate mix of options.

Why does the revision of the REDII introduce a subtarget for the uptake of RFNBOs in the industry sector?

- As outlined in the hydrogen strategy, the scale-up of renewable hydrogen is not possible without measures to stimulate the demand.
- Furthermore, the hydrogen strategy identifies industrial applications as one of the hard-to-decarbonise sectors where hydrogen will undoubtedly be needed to achieve climate neutrality in 2050.
- To direct the demand for hydrogen to those industrial applications where the value added of renewable hydrogen is the highest, the subtarget is formulated in such a way that it includes the total volume of both existing as well as future applications of hydrogen in industrial processes.
- Furthermore, the subtarget only focuses on the year 2030, which will allow Member States to plan the consumption of RFNBOs over the next decade in the most cost-effective way.
- At the same time, this allows Member States that wish to do so the opportunity to immediately start replacing fossil-based hydrogen consumption with RFNBOs.

[Hydrogen]

How will you ensure a technologically-neutral ramp-up of hydrogen?

- The EU Hydrogen Strategy recognises the **many different pathways** to produce hydrogen and hydrogen-derived fuels. Each have their associated greenhouse gas emissions across the full life-cycle.
- On this basis, the strategy **differentiates hydrogen** on its **greenhouse gas emission reduction potential**, irrespective of the technology pathway used to convert energy into hydrogen.
- The strategy also differentiates hydrogen on the basis of the energy source that is used to produce hydrogen:
 - The renewable energy directive promotes hydrogen production from **renewable energy sources** that meet greenhouse gas emissions reduction standards, irrespective of the technology used.
 - Hydrogen produced from **non-renewable energy sources** that meet greenhouse gas emissions reduction standards, irrespective of the technology used, is supported under a

number of other initiatives, including the **EU ETS**.

- Finally, the hydrogen strategy recognises the benefits of the production of hydrogen from additional renewable power generation, which can be used to decarbonise energy consumption as well as help manage a renewables-based electricity system.

The criteria to account renewable hydrogen proposed in the draft delegated act are too strict to allow clean hydrogen?

- RED II mandates the Commission to set out methodologies ensuring that the use of renewable fuels of non-biological origin (RFNBOs) contributes to the decarbonisation effort.
- This concerns, in particular, rules for the production of renewable hydrogen from grid electricity as well as a methodology to determine emissions savings. The **delegated act** is specific for renewable hydrogen counted towards renewables target in the transport sector under REDII.
- We are aware of the importance of this topic of the **uptake of the renewable hydrogen market**. We are looking at ways that help achieve the goals of the EU Hydrogen Strategy. This gives a key

role for RES Hydrogen to achieve climate neutrality.

- The obligation to adopt this delegated act stems from existing legislation and applies independently from the ongoing revision of REDII. The delegated act will therefore determine the regulatory framework for the production of RFNBOs for at least 3 years.
- Commission staff are looking into how best to translate input into a delegated act that corresponds with regulatory requirements including how to implement additionality requirements, including requirements for temporal and geographical correlation.
- It would not be appropriate, however, to comment on the leaked text. Work on these methodologies is still ongoing – and have not yet been politically validated.

[EED]

How will you ensure sufficient flexibility for MS in achieving the energy savings?

- There is a **balance** to be struck between **flexibility and ensuring that efforts are focussed**. This is especially true for areas that are harder to address. These are issues that we were conscious of while reflecting on updating the measures.

What changes do you envisage for industry (current article 8)?

- It is surprising that the available evidence seems to suggest that across the EU, only a **small share of cost-effective energy audit recommendations are implemented in businesses**. It would urge industry to start to regard these as an opportunity to **improve competitiveness and lower costs** as well as contributing to our climate ambitions.

Too much emphasis on energy efficiency?

- Reducing energy use is a cost-effective way to increase our climate ambition. Evidence in our Impact Assessment shows there is still a large amount of cost-effective energy savings potential.

How does energy efficiency help keep the cost of transition down?

- The reduction of energy consumption along with other measures is a cost-effective way to achieve a higher climate ambition. All PRIMES modelling scenarios indicate a need to do much more on energy efficiency. Compared to other measures, pushing energy efficiency **does not increase the overall costs needed** to reach 55% reduction in GHG emissions target; it actually **reduces them**.

Must it always be energy efficiency first? Even if it costs a lot of money?

- Energy efficiency first does not cost money. The principle is based on cost-effectiveness, so energy efficient solutions should not be pursued at all costs.
- What is important is that energy efficiency is **well-assessed** and properly **taken into consideration**. It should take into account wider benefits of energy efficiency measures, like **health** and **local jobs**.