

DG GROW

Meeting between Commissioner Breton and Cefic

10 Feb, 16:00 – 17:00

Chemicals Strategy, the Ecosystems and the Fit for 55% for the Energy Intensive Industries

BRIEFING NOTE *(Commission Internal)*

Scene setter/Context of the meeting:

Cefic has met with DG GROW three times recently (with DG K. Jorna in December 2020 and January 2021, with DDG M. Rute in January 2021). They have met with EVP Timmermans and Commissioner Sinkevičius, EVP Dombrovskis (on more general topics and economic issues) and EVP Vestager (focusing more on COMP issues). In addition, they **will meet/have met** President von der Leyen on the 5th of February.

As regards the **Chemicals strategy for sustainability**, Cefic supports its vision and objectives, but has been critical on the number of legislative proposals announced. They consider that the strategy is not specific enough on how innovation and the industrial transition will be supported. In their view, it lacks connection to the real-world geopolitical context and is a missed opportunity for delivering on the European Green Deal as growth strategy. Cefic's major fear is that an uncoordinated policy, combined with weak enforcement, risks outsourcing the Green Deal technology solutions to other parts of the world.

Concerning **Fit for 55**, Cefic and other Energy-Intensive Industries are calling for an enabling regulatory framework and specific supporting measures creating the framework conditions for the transformation of these sectors. In particular, Cefic considers that the burden-sharing between ETS and non-ETS sectors should be rebalanced and the former's share in the EU ambition should be reduced as industry is exposed to global competition. It also calls for a number of specific reforms of the EU ETS and opposes its extension to transport and buildings (i.e. under a common cap). As to the future Carbon Border

Adjustment Mechanism (CBAM), Cefic insists that it should be complementary to (and hence not replace) the free allocation principle under the current ETS. It should also take into account the specific characteristics of the chemical industry, in particular its strong export orientation (requiring a mechanism that addresses the additional cost for exports) and the presence of very long and complex value chains (which calls for a reasonable product scope of the CBAMs and necessitates measures not entailing high compliance costs or administrative burdens).

Objective of the meeting:

Listen to Cefic's concerns and provide information on the latest state of play on the different files. Invite Cefic to actively engage in the implementation of the various policies and strategies.

KEY messages

Chemicals Strategy for Sustainability

- Our services have started the implementation of the chemicals strategy. Impact assessments are being discussed and set up.
- We need your active participation. We will set up a high-level round table. The first meeting is expected to take place in March or April.

Ecosystems

- The industrial strategy puts the focus on industrial ecosystems. This is a new approach and reflects the need for new ways of thinking and working to lead the twin green and digital transitions and to increase resilience.

Fit for 55 for energy intensive industries

- The EU strives to achieve its 55% emission targets reduction by 2030. We know this is challenging.

- Transitioning to a climate neutral and circular economy by 2050 will require full mobilisation of industry together with a significant investment push. The chemical sector is of strategic importance to the EU economy and this transformation.

Line to take

Chemicals Strategy for Sustainability

- The role of industry and innovation will be crucial to succeed in meeting the Green Deal goals and at the same time regain global market.
- The Chemicals Strategy measures boost innovation; they include funding and investments for research and their commercialisation and uptake.

Ecosystems

- The Commission identified 14 industrial ‘ecosystems’, representing around 90% of the business value added in the EU. The chemical industry is part of the ecosystem of Energy Intensive Industries and the Health ecosystem.
- The Commission will publish the detailed definitions of the ecosystems with the update of the Industrial Strategy in March. It will also explain how the ecosystem approach will feed into policy making as well as the governance of these instruments to make sure that all relevant stakeholders, including MS, can contribute to the analysis.

Fit for 55 for energy intensive industries

- Hydrogen will be crucial for decarbonisation of hard-to-abate sectors, like chemicals industries. Following this most promising pathway to climate neutrality will require a substantial expansion of generation capacities for decarbonised electricity and of the infrastructure for its transportation. On 8 July, the Commission released the Hydrogen Strategy and launched the European Clean Hydrogen Alliance with an investment agenda to support ambitious deployment of hydrogen technologies until 2030.
- As mentioned in March 2020 with the Industrial Strategy, a low-carbon alliance can be considered as one of the possible industrial alliances. It would be important for us to understand if this is what the chemical sector actually wants or if there are other solutions that you propose, to accelerate the green and digital transition and to build resilience.
- If you consider that an important project of common European interest (IPCEI) could be an alternative to the Alliance, please let me and EVP Vestager know.

Defensives / Q&A

Chemicals Strategy for Sustainability

Q: The chemical industry wants to work constructively towards realising the EU's objectives, in particular the European Green Deal, but is very worried about the cumulative impact of the multitude of policy initiatives which are not all coordinated.

A: The Commission has assessed that there was no need for an impact assessment on the Chemicals Strategy as a whole, as the measures established were based on extensive evaluations and consultations of our legal framework on chemicals.

However, we know it is important to guarantee coherence and synergies during the implementation of the Strategy and its various actions, and the High Level Roundtable will help us to regularly discuss this with stakeholders.

I can also reassure you that the Commission as a whole is highly committed to achieving the goals of the Strategy across policy areas, and that internal coordination is fully in place to ensure coherence and alignment of the upcoming initiatives announced under various Commission strategies.

Q: Cefic is concerned that the Commission does not favor a sectoral 'green deal' approach for the chemicals industry because it is worried about NGOs' reactions.

A: The Chemicals Strategy integrates the main objectives of the Green Deal into a holistic and coherent roadmap on where the chemicals policy is moving to in the medium- to long-term to support those objectives. It announces an overall consolidation and simplification of the legal framework on chemicals and ensures predictability through a clear timeline of upcoming regulatory actions.

We are fully aware that the chemicals industry is already committed to support climate neutrality and circular economy, and we would appreciate the same commitment on the objective of a zero pollution and toxic-free Europe, for which the chemicals industry plays a key role. On our side, we have announced in the Strategy a set of actions and incentives to promote the green transition of the sector and of its value chain through various funding instruments, and we are also engaging with Member States to make sure that the transition to safe and sustainable chemicals is fully mainstreamed across EU funding programmes and national recovery plans.

Ecosystems

How does the ecosystems concept differ from a traditional value chains approach?

- The ecosystems encompass all players operating in a value chain: the smallest start-ups and the largest companies, research activities, service providers and suppliers. Ecosystems, like in nature, are a matter of symbiosis (i.e. living

together), synergies (i.e. working together) but also, as far as the limited resources are concerned, competition. It is all a matter of finding the right balance along firm size classes, between different categories of know-how, along value chains and, last but not least, between synergies and competition.

- Compared to the traditional approach, ecosystems allow for a bottom-up approach that takes into account specificities of business models, a high percentage of vulnerable players (SMEs and micro) and interdependencies. This simply cannot be done via traditional macro or micro analysis.

Background information

Name of Cabinet Member: J. Canton

Name of the Director who has cleared the briefing: C. Pettinelli

BASIS request ID: 722

Room, time: 10 Feb, 16:00 – 17:00

Participants:

Name of main contact person:

Telephone number:

Directorate/Unit: D/2

Chemicals Strategy for Sustainability

European Green Deal

The Green Deal includes a Zero Pollution ambition and the Chemicals Strategy for Sustainability is the first deliverable. It will be followed by a zero pollution action plan for water, air and soil in 2021.

Chemicals Strategy for Sustainability

The Chemicals Strategy aims at better protecting citizens and the environment against hazardous chemicals, encouraging innovation for the development of safe alternatives and increasing global competitiveness of the EU chemicals industry.

In order to increase protection of health and the environment, the Commission proposes to ban the most harmful substances from consumer products, in particular endocrine disruptors and persistent chemicals. Substances of concerns will only be allowed if their use is necessary for health, safety or is critical for the functioning of society and if there are no acceptable alternatives. The strategy also aims to boost innovation, promote competitiveness and

increase the EU's strategic autonomy. It will promote chemicals, materials and products that are safe and sustainable by design. It will also promote and support the development of green and smart technologies and innovative business models to enable the transition towards low-carbon and low environmental impact manufacturing processes in the chemicals sector.

The strategy will promote the EU's resilience of supply of chemicals used in essential applications for society through EU funding and investment mechanisms. It will establish and update a research and innovation agenda for chemicals, to fill knowledge gaps on the impacts of chemicals, and foster multidisciplinary research and digital innovations for advanced tools, methods and models, also to reduce animal testing.

The enforcement of chemicals legislation will be stepped up by strengthening the principles of 'no data, no market', carrying out audits in Member States, and setting up uniform conditions and frequency of checks for certain products. The implementation of the new market surveillance Regulation as well as measures to reinforce the EU Customs Union will strengthen enforcement within the EU and at the external borders.

EU chemicals industry

Chemical manufacturing is the fourth largest industry in the EU and 59% of chemicals produced are directly supplied to other sectors, incl. health, construction, automotive, electronics, textiles.

Global sales of chemicals were EUR 3347 billion in 2018 and are expected to double by 2030. However, the EU's global sales share is on the decline with a forecast of moving from 2nd to 3rd position by 2030 by being overtaken by the US while China remains the number one and on the rise.

EU chemicals industry: facts and figures 2018 (Source: Cefic)

Turnover	EUR 565 billion
Direct jobs	1.2 million
Number of companies	26 600
Capital spending	EUR 21 billion
R&D investment	EUR 10 billion
Global sales share	16.9%

Chemicals will be a key enabler for the European Green Deal, as chemicals are the building blocks of low-carbon, zero pollution and energy- and resource-efficient technologies, materials and products. Increased investment and innovative capacity of the chemicals industry to provide safe and sustainable chemicals will be vital to offer new solutions and support both the green and

the digital transitions.

Fit for 55 – Energy-intensive industries

In the “Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy by 2050”, the High Level Group on Energy Intensive Industries has highlighted the need for rapid progress on the demonstration of first-of-its kind technologies by 2030, considering the short time left until 2050.

EII are therefore calling for an **enabling regulatory framework and specific supporting measures** creating the framework conditions for the transformation of these sectors. The determining factors to allow the green transition of energy-intensive industries can be summarized as follows:

- **Abundant and affordable decarbonised energy, in particular electricity.** Net-zero emissions industrial production requires significant decarbonized electrification and climate-neutral fuel switch, in order to get significant GHG reduction after the year 2030 (e.g. net zero production of cement, steel and chemicals in 2050 will require 2 – 3.5 times more electricity than in 2015). It needs to be available at the scale required, competitively priced and affordable to support EU industry in its pathway towards climate neutrality.
- **Investments in production assets, R&I, demonstration and deployment of new technologies and infrastructure** (e.g. electricity grids, energy system infrastructures, energy storage technologies, CCUS and CO2 transportation pipelines). In this regard, it is to be noted that investment cycles should also be taken into consideration, as innovation will not follow a linear path. Disruptive breakthrough technologies, needed for the climate-neutrality objective, require sufficient time to be developed, up scaled and commercialised.
- **Digitalisation and transformation of business models.** Current digital technologies can contribute to reduce 15-20% of total current CO2 emissions. Lead companies in Europe are keen to launch a digital coalition to set their carbon neutrality pathway, and it is the right momentum to build upon this initiative.
- **Foster demand for green products and competitiveness on export markets.** European companies still have a clear competitive advantage compared to international competitors when it comes to the quality of the products and their sustainability features. In order to strengthen this as a market competitive advantage, we must create the conditions to massively promote the uptake of sustainable products and to support companies and sectors that export an important part of their production. This could be done both through economic measures (like a CBAM that also includes export

rebates) but also through a wise trade policy, creating the conditions for our companies to enter the future “green” markets in developing countries.

- **Recyclability and possible change in raw materials.** The transition to renewable energy and digitalisation will significantly increase the demand for raw materials, not only for high-tech applications but also for infrastructure. Europe is performing well in terms of recycling of some materials. For other materials, especially those needed in renewable energy technologies or high tech applications, secondary production represents only a marginal contribution. A secure and sustainable supply of raw materials, both primary and secondary, is paramount to enable the transition to a climate-neutral economy.

In the light of all these critical factors, possible increase of EII’s carbon leakage exposure should be assessed **alongside** the revision of the 2030 climate targets, as it is inherently linked to our climate targets. **Carbon leakage measures should be commensurate with and effective for the high level of pursued climate ambition.**

When it comes more specifically to **ETS**, and in particular to effort sharing, EII underline that it will be particularly important to strike the right balance between ETS sectors on one hand, where emissions have significantly reduced, and non-ETS sectors on the other hand, which in many cases have seen a stagnation or increase of their emissions. This will be needed in order to prioritise the sectors where most efforts to reduce GHG emissions are necessary.

Ecosystems

- The COVID19 crisis, which exposed the interlinkages between the economies and economic players along the value chains and beyond, gave this new approach an even bigger “raison d’être” for the recovery.
- While preparing the needs assessment to inform our Recovery Plan, the Commission identified 14 industrial ‘ecosystems’, representing around 90% of the business value added in the EU. They are fundamentally pan-European and capture continental economic interdependencies in all their complexities, ranging from manufacturing activity, to public and private services, in both physical and digital realms.
- Ecosystems span across the EU Member States and involve all players operating along the value-chain from the smallest start-ups to the largest companies, from academia to research, service providers to suppliers. Ecosystems can have very complex value chains involving a large number of countries in and outside the EU. We have identified 14 industrial

ecosystems, representing around 90% of the business economy value added in the EU. Those include: Mobility-Transport-Automotive, Tourism, Creative and Cultural Industries, Aerospace and Defence, Textiles, Electronics, Energy-Renewables, Energy Intensive Industries, Agri-Food, Health, Digital, Construction, Retail and Proximity & Social economy. Each ecosystem has its own characteristics, but all evolve in the same reality an integrated single market, with research, engineering, production, assembly and service activities that can be spread across different European countries.

- The ecosystem approach complemented the macroeconomic analysis and helped identify the repair and investment needs on the basis of which the Commission drew up the proposal for NextGenerationEU. That same approach is also helping identify areas in which investments can have the greatest value added and hence benefit Europeans the most, and allows us to pinpoint and address the bottlenecks – physical and digital – that still exist in our Single Market.
- The Commission will publish the detailed definitions of the ecosystems with the update of the Industrial Strategy. Within the same package, the Commission will also explain how the ecosystem approach will feed into policy making. The governance of these instruments will also be explained, to make sure that all relevant stakeholders, including MS, can contribute to the analysis.

