

## Steering brief

### Scene setter

You will have a virtual meeting with the [REDACTED] CEFIC and [REDACTED] BASF, [REDACTED]. The concept is a video dialogue between the two of you, which would be open to be watched by the CEOs and high-level executives of the wider European chemical industry. It will be moderated by [REDACTED] ([REDACTED]), who you met in Amsterdam at the CEFIC convention two years ago.

Mr [REDACTED] would like to discuss the '**at least 55%**' **target for 2030** and the **Chemical Strategy for Sustainability** under the Green Deal as these two topics are crucial for the future of the chemicals sector. Other topics which may be raised include the chemical industry and circular economy as well as the illegal import of hydrofluorocarbons (HFCs).

### CEFIC positions

#### *On decarbonisation of the chemical sector*

**BASF** is a large chemical company actively exploring how to reduce its CO<sup>2</sup> emissions and has already joined the European Clean Hydrogen Alliance. BASF could therefore potentially be active on hydrogen supply (by pyrolysis) and take-up of renewable hydrogen in its processes.

**CEFIC** supports the Green Deal and Europe's ambition to become climate neutral by 2050. To achieve the climate targets, CEFIC has consistently underlined the need for an 'enabling framework'. For CEFIC, the main pillars of such a framework are an effective mechanism to **avoid carbon leakage**, the availability of abundant and affordable **renewable electricity** and increased **recycling and circularity**.

CEFIC supports the EU ETS as a 'key instrument aiming to achieve agreed emission reductions at the lowest cost'. It voiced support for the dynamic free allocation principle. [REDACTED], CEFIC's [REDACTED], has recently advocated that all funding coming from the EU ETS should be **returned to innovation** in the sectors inside the ETS. CEFIC has expressed its **dissatisfaction with the exclusion of the 'organic chemicals' sector** from the list of sectors eligible to receive indirect cost compensation.

Some chemicals sub-sectors have repeatedly expressed **concerns about losing eligibility for State aid** following the revision of the revised **ETS-related State aid Guidelines** adopted in September 2020. They will enter into force on 1 January 2021. **Petrochemicals** which are at the origin of many important value chains and account for over 25% of total EU chemicals sales, and **fertilisers** which account for about 5% of EU chemicals sales, are the most prominent among them. Both these sub-sectors have lost eligibility as a result of the revision.

CEFIC would not prefer a **Carbon Border Adjustment Mechanism (CBAM)** for the chemical sector:

- Being first and foremost an exporting sector – the EU chemical industry may be penalised by possible retaliation measures adopted by countries whose exports to the EU will be affected by the CBAM.
- The extremely interlinked nature of the chemical industry, with many value chains relying on trade with intermediate inputs, may lead to CBAM affecting the competitiveness of its own products.

CEFIC considers that any future CBAM measures would need to be **complementary to the ETS free allocation system**. CEFIC is not necessarily in favour of a cumulative

system of measures addressing the risk of carbon leakage, because of perceived negative effects of CBAMs on its export competitiveness.

CEFIC expects **hydrogen** to play a pivotal role in the reduction of the carbon footprint of Europe's energy. CEFIC called for a rapid reduction of cost, a credible certification framework, a strong research and innovation support as well as a competitive market. CEFIC also advocates for access to **affordable natural gas** to further contribute to the chemical industry's greenhouse gas emission reductions.

#### ***On the Chemical strategy for Sustainability***

CEFIC approved of some elements of the Strategy such as the safe and sustainable-by-design concept and signals of more policy on enforcing compliance. However, it **considered the Strategy a long list of regulatory measures lacking clarity** on internal consistency, relation to the real-world geopolitical context like Brexit and how they will add up to achieve the Green Deal objectives. Also, according to CEFIC, a better balance should be struck between simply banning chemicals based on their hazardous properties and enabling the technology solutions that will make the Green Deal a reality. CEFIC also highlighted that an **uncoordinated policy risks outsourcing the Green Deal technology solutions to other parts of the world**. CEFIC is also against a full re-opening of REACH and calls for rigorous impact assessments on the proposals in the Strategy and on its overall contributions to the Green Deal.

#### ***On the chemical industry and the circular economy***

The circular economy for plastics, with e.g. targets on the reduction of the consumption of virgin plastics and a shift from virgin plastics to recycled plastics, can mean **substantial business losses for the chemical industry**. However, there are also potential opportunities, with the chemical recycling of plastics for example. The question is to demonstrate the environmental benefits.

BASF is among the most advanced companies on **chemical recycling of plastics**. CEFIC is active in promoting this new solution to plastics pollution, including within the Circular Plastics Alliance.

The Commission is favourable in principle to chemical recycling as these technologies can help recycle contaminated and mixed plastic waste that is not recyclable through mechanical recycling, and make recycled plastics suitable for food applications. But the **Commission wants very robust data and evidence** on 1) the technical feasibility, including as regards decontamination/ cleaning of waste; 2) the economic viability of the processes (cannot be on subsidies forever); and 3) the environmental benefits over the life cycle (e.g. high energy consumption and CO2 emissions should not outweigh the environmental benefits from recycling).

#### ***EU chemical industry***

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

#### **EU chemical industry: facts and figures 2018 (source: CEFIC)**

<b>Turnover</b>	EUR 565 billion
<b>Direct jobs</b>	1.2 million
<b>Number of companies</b>	26 600
<b>Capital spending</b>	EUR 21 billion
<b>R&amp;D investment</b>	EUR 10 billion

### ***Objectives of the meeting***

- What we want:
  - Encourage industry stakeholders to engage with national authorities in preparation of the National Recovery and Resilience plans.
  - Explain to BASF/CEFIC the overall approach of the Commission to the chemical recycling of plastics.
- What the interlocutor wants:
  - An exchange of views and the opportunity to put questions to you.

### **Key messages**

#### ***On the decarbonisation of the chemical sector***

- The EU stands ready to support the chemical industry's efforts towards decarbonisation, including through support to development and improving market readiness and uptake of promising technologies:
  - For instance, **Horizon Europe** working in synergy with the **Innovation Fund** under the EU ETS and the **InvestEU Fund** will become important enabling tools in this direction.
  - CEFIC's members should therefore be encouraged to **engage with the relevant national authorities** to be able to benefit from the funding available under the **Recovery and Resilience Facility**.
  - The chemical industry is one of the key energy-intensive industries that we wish to involve in the **Alliance on Low-carbon Industries**.

#### ***On the Chemicals strategy for sustainability***

- The Strategy sets out an ambitious regulatory agenda. It will be **rolled out in a phased manner**, through targeted modification of chemicals legislation, including REACH, and will build on impact assessments.
- The transition to chemicals that are **safe and sustainable by design** is not only a societal urgency but also a great economic opportunity. The Strategy will steer and support industry in its green transition. Support exists in the form of **Member State investments in projects facilitating the green and digital transition** and the Commission's **financial instruments for R&D programmes, re-skilling and innovative business models** to name just a few.
- The Commission cannot implement the Strategy on its own. **Expert and stakeholder input is needed**. That is why we will establish a **high-level round table with experts from industry, science and civil society** to realise the Strategy's objectives in dialogue with all stakeholders concerned. It will focus on how to make the chemicals legislation work more efficiently and effectively, but also on how to boost the development and uptake of innovative safe and sustainable chemicals across sectors.
- Coherence in the regulatory processes will **signal the direction and secure long-term investments**, which will enable our industry to reap the first-mover advantage.

#### ***On the chemical industry and the circular economy***

- The European Commission is ready to encourage investments in chemical recycling of plastics, as part of our strategy to economic recovery, if we are truly convinced this is also sustainable recovery.

Meeting with [REDACTED] BASF and [REDACTED] CEFIC, [REDACTED]  
Online, 5 November 2020, 10h30-11h15

- There is a **need to demonstrate the environmental benefits of chemical recycling of plastics based on robust data and evidence**. Chemical recycling needs to prove that it is better than landfilling or incineration, when looking at all environmental aspects (including CO2 emissions).

***On illegal HFC imports***

- Since 2019, targeted actions to prevent illegal imports have been taken. The Commission has in particular focused on:
  - Rapidly building the IT system '**EU Single Window for Customs**', which ensures controls become more effective.
  - Insisting clearly with Member States at all levels that good implementation is needed, including through **dissuasive penalties for illegal activities**;
  - Developing and **exchanging best practices** on how to step up enforcement and ensure dissuasive penalties for illegal activities.

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