



European Round Table
for Industry

EU Climate Action & 'Fit for 55'

Initial assessment - input for the informal advisory group
EC President Ursula von der Leyen
Meeting - 25 August 2021

ERT Members support climate neutrality and the ambition of 'Fit for 55'

We support the principle of 'climate neutrality' by 2050

- Successful implementation is depended on 'competitiveness': for innovation & economic growth, and for jobs & prosperity
- ERT Members stand ready to co-operate with policymakers to put this principle in practice in a complex environment in Europe and beyond

The 'Fit for 55' package is ambitious and applies an holistic approach; proposals are interlinked

- Maintain these crucial interconnections throughout the negotiation process
- Keep consistency with other measures and proposals (e.g. Environmental and Energy State aid guidelines)
- Ensure a coherent implementation at Member States level
- Incorporate risk management and scenario planning, in co-operation with stakeholders

We have identified some crucial elements for Europe to '*stay on track*'

1. Ensure the availability of **sufficient clean energy** at a competitive cost
 - Secure energy supply. Embrace transitional fuels on the way to decarbonisation (natural gas, blue hydrogen, etc) and promote green solutions (e.g. green hydrogen)
 - Deliver on those actions which are within our European scope: accelerate permitting processes (even more than currently proposed), harmonisation of EU legislation (focus on our Internal Market shortcomings)
 - Invest in energy distribution (grids)
 - Tackle levies and taxes in electricity prices
 - Promote energy efficiency (e.g. the huge potential of digital solutions)
2. Manage the **geopolitical dimension** and build partnerships (e.g. the US and China)
 - Promote global carbon pricing, and, expand or strengthen in sectors like maritime or aviation
 - CBAMs are important to avoid carbon leakage – include a mechanism for exports
 - Uniformise global reporting on climate action
 - Safeguard access to raw materials for the transition (both inside & outside EU)
3. Enhance **regulatory stability** at EU and Member States level to unleash the massive investments required for the transition
4. Take account of **sector specificities** with input from stakeholders in these sectors
5. Address the **societal dimension**, i.e. increasing (energy) costs, need for up- and reskilling



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Background information
EC President Ursula von der Leyen
Meeting - 25 August 2021

ERT Members are committed to contribute to delivering the energy transition and tackling climate change

Climate action is urgent:

“Global warming of 1.5°C and 2°C will be exceeded during the 21st century unless deep reductions in carbon dioxide (CO₂) and other greenhouse gas emissions occur in the coming decades.”

Source: IPCC (2021) 6th Assessment Report



“We embrace the European Green Deal and fully endorse its stated aim of making Europe the world’s first climate-neutral continent by 2050.

We support a net greenhouse gas emissions (GHG) reduction target of 55% by 2030, coupled with an enabling policy framework to ensure competitiveness and industrial transformation.”

Source: ERT flagship paper (Dec 2020)
Making the most of Europe’s climate leadership

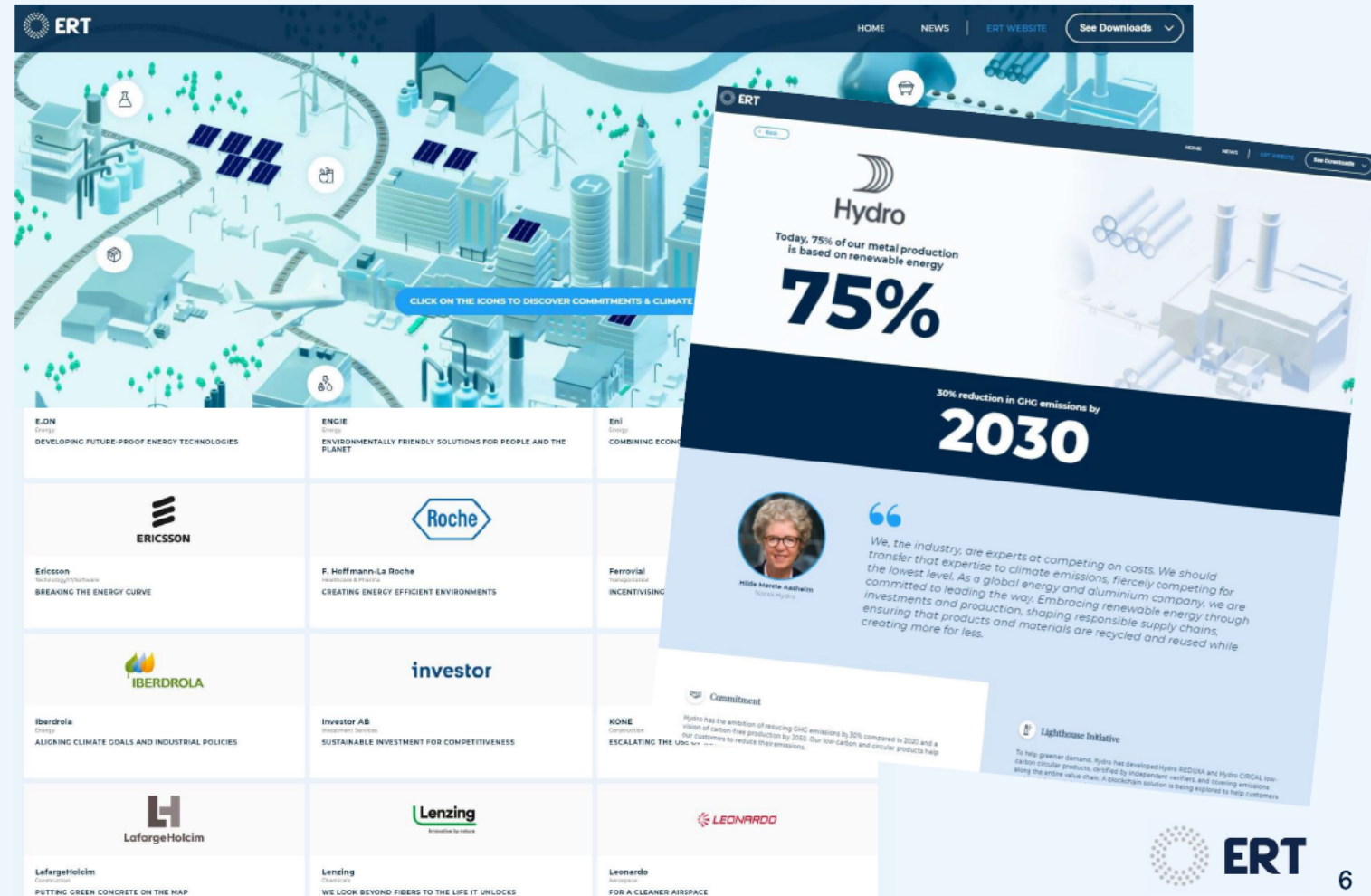
European industry shows its commitment to reducing GHG emissions and provides examples of concrete lighthouse projects

www.industry4climate.eu

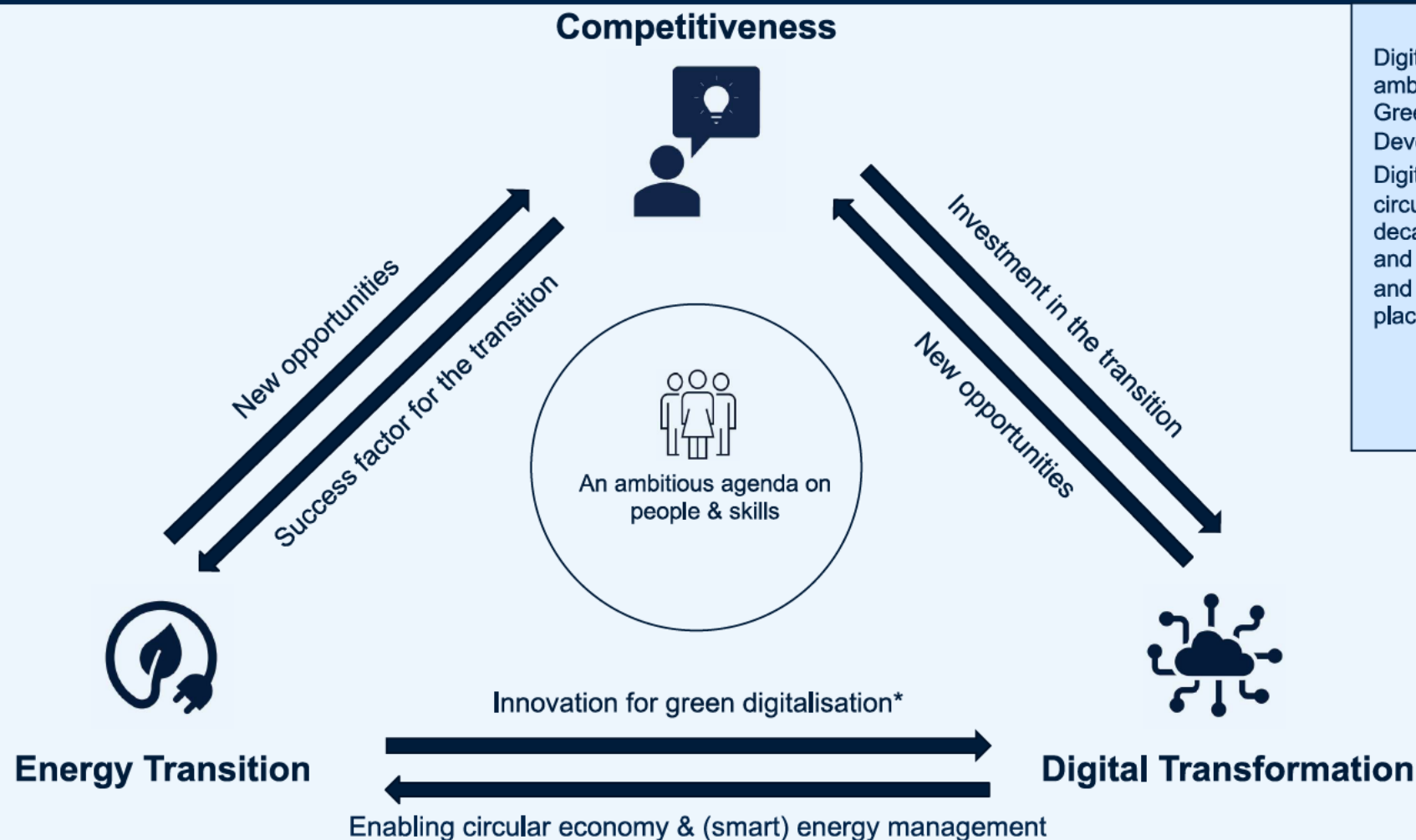
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“As individual companies, we are already taking decisive action to lead in a number of emerging challenges and opportunities.

Both individually and collectively, we are determined to contribute to a successful transition of European society and economy to climate neutrality.”



Mastering the interdependence of competitiveness, energy, and digital



Digital is key in reaching the ambitions of the European Green Deal and the Sustainable Development Goals. Digital solutions can advance the circular economy, support the decarbonisation of all sectors and reduce the environmental and social footprint of products placed on the EU market.

EC: Shaping Europe's Digital Future,
19 February 2020

* The ICT sector as key enabler constitutes 1,4% of global carbon emissions and around 3-4% of electricity used

Nine key actions in the ERT flagship report *'Making the most of Europe's climate leadership'*

Published in December 2020

1. Address the 'golden triangle': clean energy, industrial competitiveness and climate neutrality
2. Align investments in the recovery with the transition towards climate-neutrality
3. One size does not fit all: determine a sector-specific mix of policies and instruments
4. Boosting digital goes hand-in-hand with the green transition
5. Strike the right balance between predictability and coherence in policymaking with long-term flexibility

A first assessment of Fit for 55 related to these points is in the next slides

6. Put a price on all carbon emissions to incentivise reduction
7. Ensure a global level playing field for carbon costs
8. Ensure the availability of sufficient clean energy at a competitive cost
9. Drive demand, not only supply, to make the business case for low-carbon products

ERT # 6: Put a price on all carbon emissions to incentivise reduction

- Expand explicit carbon pricing to all sectors and activities, using sector-specific carbon pricing mechanisms (including emissions trading, taxes or standards)
- Change EU carbon pricing policy to include full value chains (for instance, in transport, construction) by incentivising CO₂ emission cuts by each actor at each step of the value chain
- Apply, as a general principle, a gradual integration of carbon costs in the price of products, solutions and services - regardless of their origin (EU produced or imported)
- Promote mechanisms that enhance the reliability of carbon-related metrics, for instance, carbon accounting and green labelling standards.
- Promote international co-operation with a role for business based on Article 6 of the Paris Agreement
- Use revenues to change societal behaviour and to encourage all to decarbonise the economy

Fit for 55 proposals:

- ✓ Explicit carbon pricing is reinforced or expanded to other sectors: aviation, maritime, road transport and buildings
- ✓ Separate carbon pricing system for transport and buildings
- ✓ Imports are covered by carbon pricing
- ✓ EU Social Climate Fund / vulnerable consumers
- ? Sufficient for changing consumer behaviour (while maintaining competitiveness)?
- ? Important international dimension – e.g. Metrics, Art. 6 negotiations (COP26)
- ? Reducing the number of exemptions in the Energy Taxation Directive may lead to additional costs for industry (double regulation)

ERT #7: Ensure a global level playing field for carbon costs (1/2)

- Ensure a global level playing field for carbon costs ideally via harmonised carbon pricing at least at G20 level. However, in the absence of a global carbon price, additional measures are needed

On CBAMs:

- **One system cannot fit all purposes** - CBAMs are part of a wider policy mix depending on sector specificities
- **CBAMs should be additional and complementary** to the free allowances and the compensation for the indirect costs in the EU ETS, while allowing for a predictable and gradual transition to a new post-2030 carbon pricing policy framework
- Provide industry with **long-term planning assurance**
- **Pilot** it in an initial phase to a sub-set of primary products (e.g. cement, steel, engineered wood and glass), where it could be pragmatically implemented, to be followed by an extensive consultation in view of a potential future implementation to all sectors and products, with the appropriate sector-specific measures

Fit for 55 proposals:

- ✓ Support for continued co-operation at G7 and G20 level on carbon pricing
- ✓ Gradual introduction of CBAMs and co-existence with EU ETS carbon leakage protection till 2035
- ✓ Piloted for some sectors
- ? Will CBAMs offer sufficient protection for carbon leakage? (Defining carbon content)
- ? How will industries for which CBAMs are not suitable be protected from carbon leakage (while fading out free allowances)? Effectiveness?
- ? Negative impacts of revised product benchmarks on competitiveness (e.g. merging benchmarks, etc) unclear
- ? Engineered wood and glass not included in first round

ERT #7: Ensure a global level playing field for carbon costs (2/2)

On CBAMs (continued...):

- Be introduced as an environmental instrument based on WTO principles
- Allow for carbon leakage protection for both European imports and exports
- Be enforceable and practically implementable
- Be dynamic and based on actual carbon content and current performance
- Re-invest the collected funds in the societal and industrial transition towards climate-neutrality
- Keep an incentive to reduce greenhouse gas emissions
- Conduct a thorough analysis and evaluation of its potential implications across the value chain and its impact, also indirect, on all economic sectors, beyond the products and sectors directly targeted
- Assessment of indirect emissions must be kept separate from indirect carbon cost faced by European industry through the power market, because the cost in Europe does not correlate with indirect emissions

Fit for 55 proposals:

- ✓ WTO compliance, in principle
- ✓ Transitional period to collect data and experience
- ✓ Linking of importers price with carbon content and EU ETS price
- ? Exports are not yet covered
- ? Compensation for indirect impact (electricity) also not (yet)
- ? What is the risk that CBAMs (and free allocation) is declared void by a WTO trade panel? Consequences?
- ? Risk of trade retaliation? (e.g. US, China)
- ? Access to reliable data
- ? Impact on downstream sectors and their competitiveness
- ? CBAM revenues go (partly) to the EU Budget

ERT # 8: Ensure the availability of sufficient clean energy at a competitive cost (1/2)

- Develop a decarbonised and competitive energy mix combining increasingly cost-efficient solutions (E.g. energy efficiency, renewables (RES))
- Facilitate the deployment of appropriate infrastructure (e.g. smart grids or charging infrastructure for electric vehicles)
- Faster permit processes for green investments
- Trigger investment in electricity distribution networks and energy storage
- Encourage Power Purchase Agreements (PPA). Address the relevant administrative and regulatory barriers
- Create a 'smart energy system integration' in the market - a coordinated and smart integrated planning of the energy system as a whole, across multiple energy carriers, infrastructures and consumption sectors with harmonised principles on grid tariffs design and taxation

Fit for 55 proposals:

- ✓ Various measures to stimulate demand for RES (40% target, sectoral targets (e.g. heating and cooling))
- ✓ Increased energy efficiency target
- ✓ Measures to promote supply (renewable H₂, PPAs, accelerated permitting, cross-border co-operation, etc)
- ? Security of energy supply seems absent. How to make sure that sufficient clean energy at a competitive cost is available?
- ? Managing the transition – e.g. role of natural gas (e.g. in Energy Taxation Directive)
- ? Impact of a new indicative target of a 1.1 pp annual increase in renewable energy use in industry?
- ? Impact of reinforced sustainability criteria on supply of bioenergy?
- ? Stronger action on faster permitting for RES and also infrastructure

ERT # 8: Ensure the availability of sufficient clean energy at a competitive cost (2/2)

- Promote renewable gases – chiefly renewable hydrogen and biomethane – in a climate-neutral future, including for hard-to-abate sectors
- Eliminate from electricity prices any concept costs not directly related to supply. Widen carbon pricing across all energy sectors to trigger the huge investments needed in clean technologies
- Support the development of thermal renewable energies, as many industries integrate heating and cooling in their manufacturing processes

Fit for 55 proposals:

- ? Limited support for biomethane (outside transport applications)
- ? The Energy Taxation Directive proposes minimum taxes – but the large share of national levies and taxes in energy prices is not tackled
- ? Incentives for energy infrastructure development (e.g. RES)

ERT #9: Drive demand, not only supply, to make the business case for low-carbon products (1/3)

- Develop sectoral decarbonisation pathways towards climate neutrality and create markets for low carbon solutions by stimulating demand by e.g.:
 - adopting a lifecycle approach for systems to evaluate the circularity and carbon footprint of products
 - providing clear and reliable information to consumers - standards and labels
 - enforcing circular product design (including remanufactured products),
 - promoting carbon accounting standards
 - developing GHG standards for scope 3
- Sector specific measures for industry:
 - Carbon 'contracts for difference' to close the gap between the conventional and low carbon energy or products
 - Low carbon product standards
 - A robust system of competitiveness safeguards
 - recognise the mitigation value of both carbon capture and storage (CCS) and carbon capture and use (CCU)

Fit for 55 proposals:

- ✓ By expanding the scope of carbon pricing and additional energy-related measures, low carbon alternatives may automatically become more interesting
- ✓ A sectoral approach (targeting aviation, maritime, etc)
- ✓ Targets for carbon storage by Land Use, Land Use Change and Forestry
- ✓ Assess the impact of the whole "fit for 55" package at sector level (e.g. steel, aviation, etc)
- ? No main actions to stimulate demand-side (e.g. lead markets for low-carbon products, standardisation, labels, (global) accounting standards). More is needed
- ? Are GHG emissions reductions by carbon capture by industrial installations sufficiently well accounted for ?
- ? Limited contribution of agri sector

ERT #9: Drive demand, not only supply, to make the business case for low-carbon products (2/3)

- Sector specific measures for **road transport**
 - New charging points for alternative fuels (hydrogen & electricity, etc)
 - Ambitious vehicle emission performance standards and incentives for customers to clean vehicles through Green Public Procurement (GPP)
 - Demand incentives for long-lasting and cleaner products through tolling systems such as Eurovignette
 - Aligning the taxation of energy products and electricity through the Energy Taxation Directive to support the use of low carbon energies

Fit for 55 proposals:

- ✓ Concrete targets for recharging pools and H₂ refuelling stations
- ✓ CO₂ emissions performance standards for vehicles
- ✓ Carbon pricing transport & buildings
- ? For vehicles: too strong focus on “zero CO₂ emissions” at the tailpipe at the expense of a life cycle approach
- ? Is passenger road transport sufficiently distinguished from heavy duty transport? (e.g. sunset clause for combustion engine)

ERT #9: Drive demand, not only supply, to make the business case for low-carbon products (3/3)

- Sector specific measures for **aviation**
 - Speed up research and development initiatives for innovative green aircraft and helicopters
 - Consider an ambitious Sustainable Aviation Fuels (SAF) mandate
- Sector specific measures for the **built environment**
 - Triple the renovation rate. This could be reinforced through concrete steps to phase out the worst performing buildings in the next decade, notably via the introduction of Minimum Energy Performance Standards on existing buildings
- Tap into the potential of public procurement

Fit for 55 proposals:

- ✓ Blending target for sustainable aviation fuel + FuelEU maritime
- ✓ Renovation target public buildings
- ✓ Review of Energy Taxation Directive – no longer based on volume, fewer exemptions
- ? Buildings – continue stimulating renovation (e.g. revision of the Energy Performance of Buildings Directive in Q4)
- ? Public procurement is not sufficiently addressed – potential?
- ? Export dimension of low carbon solutions?
- ? Involvement and partnerships with local authorities (regions / cities) to identify local opportunities

Other points of attention (1/4)

Hydrogen – Ensure an adequate level of investment (for instance, sustainable finance) and scaling-up of hydrogen solutions (e.g. simplify the guidelines for ‘Important Projects of Common European Interest’ (IPCEI))

Accelerate demand in key sectors, helping to overcome the cost gap

ERT will publish an Expert Paper on Hydrogen with company case studies / experiences and providing technology-neutral insights

Focus on **innovation (R&D)**, demonstration and deployment of low-carbon solutions

Fit for 55 proposals:

- ✓ The EU-wide certification system for renewable fuels is extended to include hydrogen
- ✓ Target of 50% green H₂ in hydrogen consumption in industry
- ? How will the target be calculated / measured?
- ? Is sufficient renewable hydrogen available?
- ? Role of low-carbon hydrogen?
- ? Workable / flexible criteria for proving “additionality” in the definition of renewable H₂ (e.g. to enable the emergence of H₂ industrial clusters and international trade)
- ✓ The Innovation Fund, will grow its financing for innovative projects and infrastructure to decarbonize industry. Particular attention will be given to projects in sectors covered by the Carbon Border Adjustment Mechanism (CBAM)
- ✓ Modernisation Fund
- ✓ More ambitious funding for Horizon Europe required

Other points of attention (2/4)

Green **skills** & education – green transition requires significant investments in up– and reskilling

Updated **competition policy**

- Define state aid rules that enable the development and implementation of new technologies
- Develop additional guidance to encourage European businesses to work together to achieve sustainability goals
- Simplify the merger control procedure and include the sustainability impact

Availability of raw materials

Develop a European strategy to ensure a sustainable and secure supply of raw materials covering both domestic and foreign markets and sources

Strengthen the internal market

Prioritise the implementation of the Fit for 55 package in a way that integrates better harmonisation of EU legislation

Fit for 55 proposals:

- ✓ Guidance to the Member States on how to best address the social and labour aspects of the transition + transitional pathways (industry strategy)
- ? Declaration of intent - In reviewing the environmental and energy State aid guidelines the Commission will pay particular attention to ensure that they mirror the scope and ambition of the European Green Deal
- ? Continuous point of attention (e.g. European Raw Materials Alliance) – no new measures
- ? Resilience in supply of base materials
- ? Implementation of EU initiatives by the Member States remains key. Cost impact and availability of funding for the green transition

Other points of attention (3/4)

Digitalisation - Promote digitalisation in strategic sectors like energy, industry, transport, cities and agriculture, by speeding up high-speed connectivity infrastructure and fostering innovation

Review policies to bring down the cost of 5G and fibre networks and allow for a fast roll-out

Promote voluntary network sharing agreements to cut costs and increase network efficiency by improving coverage and quality

Reduce barriers that impede the development and deployment of digital services

Provide incentives like tax benefits, fee reductions, preferential regulatory treatment and benefits in public sector tenders and procurement for environmentally efficient ICT solutions.

Ensure all sustainable finance instruments support digital solutions and networks

Promote the enhancement of High-Performance Computing Infrastructure for big data storage and analysis

Fit for 55 proposals:

- ? The twin transitions are mutually reinforcing – and digitalisation is an opportunity for exponential climate action across all sectors. Nonetheless, the role of digitalisation is not really addressed

Other points of attention (4/4)

Sustainable finance / Taxonomy

Include investment in transitional technologies

Recommendation of phasing in the application of the new reporting requirements to 1st January 2023 to (postpone by one year) to conduct the required modification of internal IT systems and to adapt company-wide reporting structures

Fit for 55 proposals:

- ? No additional measures in Fit for 55
- ? Possibility to add additional sectors e.g. aviation?

23 August 2021

For comments and questions:

 [@ert.eu](mailto:info@ert.eu)

The European Round Table for Industry (ERT) is a forum that brings together around 60 Chief Executives and Chairs of major multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe as a driver for inclusive growth and sustainable prosperity.

Companies of ERT Members are situated throughout Europe, with combined revenues exceeding €2 trillion, providing around 5 million direct jobs worldwide – of which half are in Europe – and sustaining millions of indirect jobs. They invest more than €60 billion annually in R&D, largely in Europe.

EU Transparency Register: 25487567824-45