

## Fiche d'entretien

WHO	Cefic's follow-up meeting with Ms Jorna to introduce new
WHEN	22 January, 15:30 – 16:30
WHERE	Video call
WHY	<p>Cefic has met with DG GROW already twice recently (December 2020 with you, and January 2021 with DDG Rute). In addition, they have met with EVPs Dombrovskis (more general topics and economic issues) and Vestager (focusing more on COMP issues).</p> <p>Cefic has been pushing for a quick setup of the high level round table for the implementation of the chemicals strategy. An interservice discussion took place on this on 15<sup>th</sup> of January. Taking into account the time needed for launching the open call (call needs to be open for at least 4 weeks), evaluation applications and selecting the members, the most optimistic timing for the group to be set up would be end of March.</p> <p><b>Topics suggested by GROW:</b> 1. Chemical Strategy; 2. Greening industry (EIs; hydrogen; HLG EII/low-carbon alliance); 3. KPIs for industrial strategy</p> <p><b>Topics suggested by Cefic:</b> 1. Cefic President's vision on the state of the industry, global competition, COVID response and first insight in 2020 final impact; 2. The quest for renewable electrons for industry (Hydrogen, Electrification, EEG and EEAG revision). <b>Feedback from meetings with EVP Vestager;</b> 3. CBAM, ETS review and the chemical industry – Cefic views and <b>feedback on discussion with EVP Dombrovskis;</b> 4. The chemicals strategy, impacts and High Level Round table; 5. Industry progress on chemical recycling – plastic recycling; 6. Recovery plans – Cefic experience and further advice the DG could give; 7. The sectoral deal for chemicals/future chemicals deal = an integrated approach to these massive changes for chemicals industry leading to a massive investment need. + Taxonomy and REACH</p>
MESSAGE	<p><b>Chemicals Strategy – Chemicals Strategy, impacts and high level round table</b></p> <ul style="list-style-type: none"> <li>• Our services have started the implementation of the strategy. Impact assessments are being discussed and set up.</li> <li>• We need your active participation. We will set up a high-level round table; following our latest internal discussions the most optimistic timing for the selection of the participants is end of March. A first meeting could take place shortly after.</li> </ul> <p><b>Greening industry – Energy intensive industries (EII), low-carbon alliance, hydrogen, electrification, EEG and EEAG revision, CBAM, ETS review and the chemical industry</b></p> <ul style="list-style-type: none"> <li>• Reaching carbon-neutrality by 2050 is a tall order. A large part of the decarbonisation rests on emission reduction technologies, which will require new infrastructure and significant investments in industrial facilities.</li> <li>• The Commission has renewed the mandate of the HLG on EII to continue work and provide input to the new Industrial Forum from this ecosystem.</li> </ul> <p><b>CBAM (Carbon-border Adjustment Mechanism, Q2 2021)</b>  <i>Multiple position papers have been published in this regards, CEFIC specific on 12/06/2021 but also on the Review of ETS Free Allocation)</i></p> <ul style="list-style-type: none"> <li>• We are aware of your industries position in regards to the CBAM and the key principles you mentioned.</li> <li>• The Commission is taking into account information and data facilitated by yours and other EIs sectors.</li> </ul> <p><b>Alliances</b></p> <ul style="list-style-type: none"> <li>• The three most greenhouse gas emitting industries have developed a proposal for a low-carbon industries alliance. The current proposal is too much focused on IPCEI; clarity is needed on the governance of the alliance.</li> </ul>

- The Commission has renewed the mandate of the HLG on EII to continue work and provide input to the new Industrial Forum from this ecosystem.
- We welcome Cefic's active involvement in the EU Clean Hydrogen Alliance. The importance of industrial use of clean hydrogen is also mentioned in the EU Hydrogen Strategy. Member States have shown interest in financing Important Projects of Common European Interest (IPCEI) in the hydrogen sector.

#### ***KPIs for industrial strategy***

- In the March 2020 Industrial Strategy communication, the Commission committed to monitoring the strategy's implementation regularly" by tracking a "set of Key Performance Indicators (KPIs)".
- the Council Conclusions of 16 November 2020 called on the Commission to define key performance indicators for monitoring the industrial strategy and competitiveness by the end of March 2021, and asked "for a regular reporting on the key performance indicators in the form of a brief written report".
- The updated industry policy will present a set of indicators monitoring the state of the European Economy. Rather than presenting indicators by sector, the Commission will work using the 14 ecosystems identified in May. The aim is to include in the analysis also those economic activities that, although not being classifiable as "industrial", provide a fundamental contribution to industry: e.g. professional services, research institutions etc.
- These indicators, on top of describing the ecosystems (e.g. in terms of size), will help monitoring the impact of the COVID-19 crisis. Moreover, they will measure the progresses made in terms of the green and digital transition.

#### ***Recovery plans***

- Drafting national recovery plans is in the hands of Member States. When reaching out to public authorities, companies and associations could stress the transformative nature of the planned investments.
- The Commission will assess these plans to ensure they contribute to the six pillars of the RFF, the digital and green transition, growth, jobs, and economic, social and institutional resilience of the Member State.

#### ***Chemical recycling – plastics recycling***

- We appreciate Cefic's work in the Circular Plastics Alliance to map the necessary investments to reach the recycling target.
- This work serves as a basis for discussion with MS on how recovery plans can help companies. As Portugal is the only Member State that joined the alliance so far, the PT presidency offers a window of opportunity to initiate the discussion at the Council.

#### ***Formaldehyde Limit Taxonomy and REACH***

*CEFIC might raise concern on formaldehyde emission limits in taxonomy, call for coherence with REACH and invoke the One Substance – One Assessment approach mentioned in the Chemicals Strategy (additional LTs in background if needed).*

- We have raised the point with FISMA and are still discussing this matter.

#### ***Sectoral deal for chemicals***

- 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, including funding and investments for research and their commercialisation and uptake.

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

BASIS request ID: 7831

Participants:

Name of main contact person:

## **Background**

*CEFIC supports the vision and objectives of the chemicals strategy for sustainability, in particular the intention to strengthen enforcement of EU chemicals legislation, ensure a level playing field for the industry and support innovation for safe and sustainable chemicals. However, CEFIC has been critical on the number of legislative proposals announced in the strategy to strengthen the protection of health and the environment from the most harmful chemicals. They consider that a better balance should be struck between simply banning chemicals based on their hazardous properties and enabling the technology solutions for the future, and that the strategy is not specific enough on how innovation and the industrial transition will be supported.*

*CEFIC considers that the strategy lacks connection to the real-world geopolitical context and that it is a missed opportunity for delivering on the European Green Deal as a growth strategy. Its ultimate fear is that an uncoordinated policy combined with weak enforcement risks outsourcing the Green Deal technology solutions to other parts of the world.*

## **CBAM (Extracted from the CBAM Note)**

### **Chemicals**

As far as the chemical sector is concerned, our internal analysis (supported by a CEFIC position paper) is that this is a sector particularly exposed to exports. Many basic substances produced in the EU go to Asia where semi-finished products are made to be re-imported in the EU for producing specialty chemicals, where the added value is; hence the problem the sector potentially faces with CBAM. Therefore, the best solution would be one that minimise the risk of retaliatory measures by trading partners and preserve the cost-competitiveness of exports. Potentially there are many chemicals that could fall in scope of the CBAM. The chemical sector has also been very vocal against the possibility to abandon the system of free allowances and indirect cost compensation.

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## ***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 is 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, being overtaken by the US while China remains number one and on the rise.

EU chemicals 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
<b>Global sales share</b>	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.

## ***Chemicals Strategy***

### *The chemicals strategy, impacts and high-level round table*

Contact:

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.

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**. Also very persistent chemicals, such as the group **PFAS**, known as "forever chemicals" are proposed to be banned. EU laws will be strengthened to ensure that substances of concern are only allowed if their use is necessary for health, safety or is critical for the functioning of society and if there are no acceptable alternatives.

In addition to protecting health and the environment, the strategy 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 EU regulatory framework for hazard and risk assessment and management of chemicals is comprehensive and complex. A '**one substance, one assessment**' process will be introduced to reduce the burden for all actors, enable more consistent and faster decision-making.

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 this year as well as measures to reinforce the EU Customs Union will strengthen enforcement within the EU and at the external borders.

#### **Formaldehyde limits – Taxonomy and REACH**

- REACH establishes a transparent legal framework for setting restriction limits for chemicals that includes risk assessment, socioeconomic assessment and takes into account feedback from public consultations.
- There is an ongoing REACH restriction process for formaldehyde and formaldehyde releasers that is currently in its final phase of assessment by ECHA.
- The Taxonomy DA is aimed to define sustainability criteria on economic activity level and it can go beyond EU legislation. However, the criteria should be supported by sound justification or scientific basis. There is no such justification provided for the proposed formaldehyde limit and standard method.
- The inclusion of different limits combined with different standards in the taxonomy delegated act and in REACH is a clear risk of conflicting limits and standards that will cause confusion for companies, investors and consumers.
- The reference to formaldehyde should be aligned to the respective entry in Annex XVII of REACH, same as it has been done for substances in Annex XIV (substances subject to authorisation).

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### **Formaldehyde limits – taxonomy and REACH**

The criteria for “do no significant harm” (DNSH) for pollution prevention and control for activities 7.1 and 7.2 in the taxonomy delegated act includes references to 2 hazardous chemicals i.e. asbestos and formaldehyde.

Asbestos is banned by REACH. There is an ongoing REACH restriction process for formaldehyde and formaldehyde releasers that is currently in its final phase of assessment by ECHA.

Once adopted, the Commission will prepare a restriction proposal under REACH which will establish restriction limits. The aim of the restriction is to ensure protection of human health to formaldehyde exposure in indoor environments, covering consumer articles but also some construction products like wood panels.

The taxonomy delegated act is aimed to define sustainability criteria on economic activity level and it can go beyond EU legislation to push for better sustainability production. However, the criteria should be included following some justification or scientific basis. The draft delegated act includes a limit is not consistent with the assessment done by ECHA under REACH.

## ***Greening industry***

### ***Energy-intensive industries***

Contact:

Energy-intensive industries (EIs), embedded in many strategic value chains, make up more than half of the energy consumption of the EU industry. EIs produce goods and materials that enable reduction of emissions in other sectors of the economy, including transport, construction and power generation. Given the long investment cycles for these industries, meeting the 2050 targets requires fast action.

The High Level Group on Energy-Intensive Industries, advising the Commission on policies relevant to energy-intensive industries since 2015, developed a masterplan with recommendations to build the policy framework needed to manage this transition while keeping our industry competitive. The masterplan presents an integrated policy framework with recommendations to ensure that these industries can contribute to Europe’s 2050 climate-neutrality ambitions. It outlines actions that could provide the right market signals to attract new investments in Europe, help companies implement cost-effective pathways towards climate-neutrality and seize new business opportunities in Europe and abroad. The masterplan also focuses on the need to ensure a just transition and considers the need to equip workers with new skills and help communities dependent on these industries to manage the transition.

### ***Hydrogen, electrification, EEG and EEAG revision***

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Contact:

EEG = (German) Renewable Energy Sources Act (DE: Erneuerbare-Energien-Gesetz)

EEAG = Energy and Environmental Aid Guidelines

- The chemical industry is an important player in the context of our hydrogen strategy, both as a user of hydrogen and as a producer.
- The key objective of the European Clean Hydrogen Alliance is an investment agenda that supports an ambitious deployment of hydrogen technologies, in line with the EU Hydrogen Strategy to scale up the production of renewable and low-carbon hydrogen as a tool to decarbonise energy-intensive industries and heavy mobility.
- Industrial use of clean hydrogen, including in the chemical sector, is an important part of the hydrogen value chain and is expected to be among the large hydrogen users in the projects launched in the Alliance.
- Cefic has taken up responsibilities within the Alliance and is the supporting organisation for the Industrial Applications roundtable.
- BASF is member of the hydrogen production roundtable, represented by
- The importance of industrial use of clean hydrogen is also mentioned in EU Hydrogen Strategy. Member States have shown interest in financing Important Projects of Common European Interest (IPCEI) in the hydrogen sector, and these large projects are also very suitable elements for the project pipeline.
- Hydrogen and renewables are expected to be part of several of the national Resilience and Recovery Plans, while several Member States have also presented, or are working on, their own hydrogen strategies and respective budgets to support them.

### CBAM, ETS review and the chemical industry

Contact:

CBAM = Carbon Border Adjustment Mechanism

ETS = Emission Trading System

- The EU chemicals industry's total GHG emissions fell by about 60% since 1990, albeit on a flattening trend, which indicates only small reductions over the 2010s.
- Reaching the goal of carbon-neutrality by 2050 is a very tall order, given:
  - the industry's characteristics (since its products are made up of about 50% carbon, full "decarbonisation" as such is intrinsically impossible);
  - a significant expected increase of consumption, requiring a corresponding increase of production (2.8 times, globally, by 2050);

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- the resources of the most accessible pathways to decarbonisation (in particular, process and energy use optimisation) having already been exploited close to the technological limits.
- It is estimated that about one half of the potential for decarbonisation by 2050 rests on emission reduction technologies which have not yet reached the level of commercial viability and are only expected to do so over the next 5-10 years or even later.
- Fully using the potential of these technological breakthroughs will require:
  - new infrastructure and upgrades of the existing one;
  - very significant investments in industrial facilities, preliminarily estimated at between several tens and low hundreds of billions EUR annually;
  - ensuring an appropriate level of demand for products whose production cost is expected to increase (sometimes significantly), including by avoiding that it gets captured by high-carbon goods manufactured in less demanding jurisdictions.