VIK and IFIEC Europe Joint Response to the Communication of the European Commission on the EU climate target for 2040

Date: 07.05.2024

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IFIEC Europe and VIK German Association of Industrial Energy Consumers welcome the efforts of the EU Commission on further development of climate policy instruments and would like to use the opportunity to provide feedback on the Communication of the European Commission on the EU climate target for 2040.

In our view, a successful industrial transformation towards climate neutrality requires the following framework conditions: time-bound roadmap and achievable targets, improved energy security conditions including competitive energy prices and a stable economic environment as well as an unbureaucratic government financial support and funding for companies to invest in long-term low-carbon projects, complemented with effective measures on carbon leakage protection and unfair international competition. The transition and the expected investment in new capacity and emissions reduction must be accompanied by appropriate enabling conditions creating a real business case across value chains. We would like to emphasise that if the conditions mentioned above are not met, the pace of the industrial transition will be slowed down. Only if carbon leakage is avoided, and thus the loss of market share to third countries, the emission reductions in Europe will contribute to global emission reductions.

From our perspective, the proposed target of a 90% net reduction in greenhouse gas emissions by 2040 compared to 1990 levels is highly ambitious and requires a clear implementation plan that assesses whether the legislation put in place will contribute to achieving the targets and takes into account the needs of energy-intensive industries in the context of current economic, social and geopolitical developments.

Ensuring that climate targets are achieved must be balanced regarding the expense of slowing or stagnating economic development and must have a global focus. Investments in climate mitigation must take place where they are most effective and should not lead to the relocation of energy-intensive companies to third countries outside the EU.

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1. Link between reduction pace and technological feasibility

Starting in 2030, the European Commission proposes a reduction path that initially declines significantly, reaching its peak reduction rate towards 2040 before gradually slowing down towards the final target in 2050. From our perspective, it is important to consider the precautionary principle by defining carbon dioxide reduction pathway between 2030 and 2050. This path can be accelerated when the aforementioned conditions are met.

This trajectory deviates from a standard innovation curve, which typically starts with slower progress and accelerates as commercialisation, technology availability and new energy sources increase. Innovations and the availability of alternative energy sources are crucial for the industry transition. However, technological breakthroughs, particularly in nascent technologies such as Direct Air Carbon Capture and Storage (DACCS) remain highly uncertain.

2. Competitiveness aspects and carbon leakage protection

We believe that tackling climate change is a global challenge, therefore it is important to consider the climate ambitions of other countries while setting climate targets in Europe[1]. IFIEC and VIK welcome the efforts of the European climate diplomacy on the global level, yet we should be realistic about its impact in terms of protecting our industrial competitiveness. As climate diplomacy will not prevent other regions from supporting their industry in transforming, the EU should not wait to act with real support for industry to avoid a shutdown of the energy-intensive industry with the associated loss of market share to third countries due to a lack of competitiveness for European companies in the short to medium term.

European industry faces high energy and carbon prices that are not comparable to the relevant prices in third countries. As green and low-carbon technologies are still under development and do not have a broad deployment in Europe, they will require much more time and progress in global climate ambitions. We are convinced that an increase in the level of ambition within ETS should be combined with a more effective carbon leakage protection and requires an evaluation, considering the needs of the manufacturing industry.

[1] Especially considering the recent statistics published by the IEA: currently, energy consumption rates are rising due to a higher deployment of fossil fuels rather than low-carbon energy carriers.

It is important for energy-intensive companies to have access to internationally competitive prices for low-carbon energy; carbon leakage protection instruments should be improved and prolonged to ensure the competitiveness of European companies in the global market.

According to the ERT-Study "Competitiveness and Industry Benchmarking Report"[2] the European industry has been continuously losing ground on global markets, especially the Report indicates that market shares have been declining, European companies are becoming less relevant in comparison to global peers, also Europe's future technological leadership is at risk. In comparison, at global level industrial competitiveness is shifting. For example, China has replaced the EU and the US as the world's leading base for industrial production, tripling its GVA share since 2000. The EU took the biggest proportional hit in market share (losing a third since 2000). As the industrial sector accounts for almost one fifth of employment in the EU, potential deindustrialisation will have a significant impact on employment and social cohesion.

Moreover, a hint to the global picture[3] should be taken into account as well, also regarding levels of GHG-emissions and the shrinking role of EU and its likely global impact. For example, the following table shows that size of the emissions in the EU is rather small in comparison to global emissions.

Emissions by country: EU and total global emissions

Country	1990	2000	2005	2015	2020	2021	2022	2022%
Unit	MtonCO2eq	MtonCO2eq	MtonCO2eq	MtonCO2eq	MtonCO2eq	MtonCO2eq	MtonCO2eq	%World Total
EU27	4915.14	4513.34	4597.10	3922.02	3427.44	3617.74	3587.80	6.67
Global Total	33268.12	36991.71	42318.43	50134.38	50632.31	53056.61	53786.04	100.00

In our opinion, the EU needs to find a path towards safeguarding its own industry first to be able to afford its transition in an evolutionary way and to establish a reliable business case.

We also would like to mention of the need for "The New Industrial Deal" as pointed out in the Antwerp Declaration as a concept for a better competitiveness of the European Industry. We call on the European Council to adopt conclusions on this in a timely manner, calling on the European Commission to take appropriate political action.

[2] Competitiveness and Industry Benchmarking Report, Link

[3] GHG emissions of all world countries 2023 report, Link

The climate target aims to reduce final energy demand by more than 35%, with a strong emphasis on electrification. This assumes sufficient availability of low-cost, low-carbon electricity, which could mean a 70% increase in electricity consumption compared to today, or even a 600% increase in the use of intermittent renewable energy sources. In the long run, renewable electricity will be a foundation for the decarbonisation of the most industrial processes in Europe. However, VIK and IFIEC Europe underline that faster expansion of renewables will lead to higher costs for electricity in the short and middle term and the relevant infrastructure, moreover, there is no evidence that low-carbon production processes will become globally competitive by 2040. In this sense, it is also questionable if the European power system will be fully decarbonised by 2040 as it is proposed in the EU Communication.

As other energy sources develop in parallel (hydrogen, ammonia, synthetic fuels), a clear strategy is needed to optimise investment in infrastructure, strike the right balance between production and imports, and avoid stranded costs.

3. Security of energy supply

We believe it is crucial to maintain existing energy-intensive industries in Europe, including their value chains, to avoid risks related to energy security, geopolitical instability or future dependencies on critical raw materials. For this, an open-minded approach to net-zero pathways will be of vital importance. A technology-neutral approach will encourage a wider range of solutions, enabling climate targets to be met in a cost-effective and efficient way. Energy diversity, including all sources of low-carbon energy should be a key priority on the way to climate neutrality. It is also important to develop diversification strategies for new energy sources and to ensure that the necessary transport routes are built.

4. Solutions for further development of the ETS after 2030

In our view, it is important to find a future solution for the ETS period after 2030, when the ETS cap will come closer to being exhausted, free allocation will approach its end and European manufacturers will need protection against carbon. The introduced CBAM, without an export solution, does not provide sufficient protection and must be revised promptly. There is no evidence that industry would be able to decarbonise at a higher speed than other sectors, nor is the impact of this ambition on competitiveness handled in the communication.

In our opinion, policymakers should analyse all relevant options for the ETS after 2030, from amending the Market Stability Reserve (e.g. enabling re-marketing of invalidated allowances), to a possible link between the EU ETS and carbon pricing mechanisms in third countries. Contributions to minimising carbon dioxide outside Europe should be recognised within the EU ETS.

5. Future risks connected with CBAM-implementation

A major gap in the current proposal of the European Commission is the lack of clarity on how the huge acceleration in investments in the industrial and energy domain can be realized within an economic outlook of higher energy and raw material costs. For instance, investment needs for industry for the period 2031-2040 are estimated to be seven times higher than those for the period 2011-2020.

Compared to the USA and other developed economies, the production prices of green products made in Europe, including net-zero technologies, will be much higher. In this sense, we would like to point out the possible "cash-out effects" if CBAM revenues are not paid by importers at the European border. The collected revenues that will not be paid as CBAM revenues to the European authorities will remain in third countries. Currently, the EU has no control mechanisms to check how these revenues are used in third countries, whether it is for climate protection and decarbonisation or other purposes. The numerous design flaws of the instrument, along with the industry's experience with its use, must be considered in a review, which may ultimately lead to the instrument's abolition.

6. Implementation of markets for green production

The creation of green lead markets and effective measures to ensure a level playing field during the transition are necessary for the successful market placement of low-carbon products. An initial clear definition of low-carbon products is central to the establishment of green lead markets. Green lead markets allow the internalisation of external environmental costs in final consumer products and can reduce the burden on public budgets in financing the transformation. The policy options for implementing green lead markets depend on the market segments and should consider the specific characteristics of a market segment. For example, qualitative criteria in public tenders are an effective policy to ensure that low-carbon products are considered in public procurement and in the renewable energy sector.

7. CCUS and carbon removals: development of the necessary infrastructure and recognition within the EU ETS

CCUS technologies are extremely important for transformation of energy-intensive industries, on the path to climate neutrality especially for "hard to abate sectors". To be successful, CCU and CCS technologies should be recognised within the EU ETS.

Currently, there is no infrastructure in Europe for deployment of CCUS technologies. We believe that the Recovery and Resilience Facility, as well as the Structural and Regional Funds, should build new European energy, digital, CCUS and recycling infrastructure as soon as possible, with these projects

coming under the Important Projects of Common European Interest (IPCEI) framework. Possible obstacles and bureaucracy burdens for industrial transformation projects should be avoided.

In the long run, VIK and IFIEC acknowledge technologies of Carbon Direct Removal as a necessary tool to abate residual emissions, including reductions from industries and land use, land use change and forestry and Direct Air Capture and bioenergy with CCUS. Carbon capture in combination with usage can also contribute to the establishment of a circular economy and achievement of climate targets.

8. Comments on the Impact Assessment

- Based on the data, provided in the inception impact assessment on the EU Climate goals 2040, it is projected that the industry and energy sectors will have the same speed and decarbonisation trajectory (ETS Endgame 2040). In our opinion, the goals for manufacturing sector are overly ambitious in comparison to energy sector, currently lacking feasible technological solutions for decarbonisation projects, regarding infrastructural and financial conditions. A better solution would be to consider a differentiated approach for the energy and manufacturing sectors.

- Further important aspect to highlight is the use of accumulated EU ETS revenues. Currently, around €500 billion collected goes back to EU member states, but not necessarily towards industrial transformation projects. This disparity needs to be addressed, as the European Innovation Fund alone lacks sufficient resources. Therefore, a transparent reporting obligation should be introduced for member states to disclose how they utilize ETS revenues for supporting industrial transformation projects.

- To achieve industrial transformation on the path to climate neutrality, energy-intensive companies require competitive market prices for green energy and especially for hydrogen. Currently, prices fluctuate between €10-15 per kilogram hydrogen. However, to compete effectively in the future, European companies need prices closer to the US IRA's projections of €2-3 per kilogram hydrogen.

- One of the key questions to be answered by the European institutions is how to generate private investment, which is projected to be six times higher than public funding.