EUROCHAMBRES

Eurochambres position on the EU climate target 2040

Public consultation on the EU climate target 2040

The EU Climate target 2040 will profoundly affect European businesses in their journey towards climate neutrality by 2050. Eurochambres emphasizes the need for pioneering energy technologies to unlock new business opportunities. Key innovations, like CCS/CCU, are crucial for achieving climate goals. Streamlining permitting procedures and fostering knowledge transfer between businesses and academia are therefore essential. Concerns arise regarding the CBAM's impact on international competition and carbon leakage protection. The chamber network also warns about financial challenges faced by SMEs in securing sustainability financing due to overburdening regulations. However, despite the challenges, increased climate protection can offer business opportunities under favourable conditions.

1. Why chamber network considers the EU climate target 2040 relevant

The transition to climate neutrality entails profound changes in production methods that have a considerable impact on the European economic landscape. The ongoing and new legislative and non-legislative initiatives of the Green Deal have direct or indirect repercussions on businesses. These specific impacts will only fully unfold once member states introduce and implement these initiatives.

Nevertheless, the direct consequences for businesses are evident through measures such as the European Emissions Trading Scheme (EU ETS). The increase in CO2 prices caused by the EU ETS has a direct impact on the profitability of plants that are obliged to trade emissions. This in turn affects electricity prices, which simultaneously affects the economy. In sectors which are not covered by the EU ETS, the EU influences businesses through the Effort Sharing Regulation and sector-specific legislation. In addition, policy decisions made under the Green Deal significantly determine the business environment for companies. To achieve climate and environmental protection goals, significant private sector investment for operational restructuring is vital. Last year's energy crisis in Europe has also underlined the economic need for secure, climate-friendly, and affordable energy.

As the chamber network, Eurochambres is certain that increased environmental and climate protection can offer opportunities for European businesses under the right conditions, meanwhile being wary of possible "carbon leakage" risks resulting from unilateral action by the EU.

2. Eurochambres main messages on the EU climate target 2040

- The chamber network supports the political objective of achieving greenhouse gas neutrality in the EU by 2050. The European economy must aim to take on a technological leadership role, thereby opening up opportunities for businesses.
- The consultation aims to collect insights from stakeholders regarding the EU's future climate targets and its implications for various economic sectors, to establish a suitable climate goal for 2040 and potentially refine climate policy tools for the period post-2030. However, in order to provide answers on a suitable climate target for 2040 a comprehensive impact assessment including an analysis on possible scenarios is needed. This is why we urge the European Commission to carry out an assessment beforehand. Moreover, the questions in the general part are often unclearly formulated or leave too much room for interpretation. The multifaceted elements impacting climate objectives, which include ecological considerations, geopolitical circumstances, the course of crises, and taxation policies, are not sufficiently represented within the provided response options. Consequently, certain questions are too simplistic to derive meaningful conclusions for the 2040 climate targets.
- With the Green Deal, the gap between Europe and global competitors in terms of climate protection costs is widening. The further development of European climate policy must, therefore, go hand in hand with securing the domestic industries at risk of production being shifted elsewhere.
- Effective climate protection can only be achieved through global efforts. Unilateral action by the EU increases the risk of carbon leakage. International climate measures should, therefore, be given greater consideration: it is recommended to globalise emissions trading in order to provide similar competitive conditions to all emitters. In addition, the EU should drive international coalitions to achieve the climate goals of the Paris Agreement, for example, within the framework of a "Climate Club."
- Innovations and new technologies are crucial for successful energy and climate policies. As the IPCC World Climate Report shows, in most relevant scenarios, CO2 cannot be completely avoided in all processes. This calls for new solutions for the capture, storage, and utilisation of CO2, as this is the only way to achieve climate neutrality. Therefore, innovations should be stimulated through technology-neutral support measures and effective incentives.
- To successfully tackle the challenges of transitioning to climate neutrality, companies require overall favourable conditions. This includes faster permitting procedures for new projects and financing opportunities for all sectors.

3. Detailed comments on the European Commission public consultation on the EU climate target for 2040

General comments on the questionnaire

The consultation aims to gather insights and feedback from stakeholders on the EU's future climate targets and the challenges and opportunities for all sectors of the economy. This should enrich the Commission's assessment of an appropriate climate target for 2040, feed into the analysis of the sectoral changes needed to achieve this target on the way to achieving climate neutrality by 2050 and contribute to the further development of climate policy instruments for the period beyond 2030.

Eurochambres appreciates the opportunity given by the Commission to hand in its feedback. Nonetheless, it is important to highlight that Eurochambres encountered some difficulties in answering certain questions. Some of the general questions left too much room for interpretation and were sometimes confusing. For example, it is not easy to set a specific number as a target for emissions reduction. This kind of judgement requires a comprehensive assessment of all internal and external factors, as well as the use of scientific data to determine a precise target. It also needs to be considered that sectors of the economy will be affected differently.

The question of the opportunities and challenges associated with increased climate targets is also open to different interpretations. Most possible answers could be either "yes" or "no", depending on the specific scenario and the overarching conditions. The benefits that enhanced climate targets could offer to business depend on a variety of factors, including the environmental context, the geopolitical situation, the progression of crises, fiscal policy, and others. Against this backdrop, the questions currently appear too simplistic to draw any substantive conclusions that would be meaningful for the formulation of climate targets for 2040.

Political Framework and international partnerships

European companies are keen to contribute to the goal of climate neutrality. Nonetheless, they still face numerous obstacles in its efforts to promote the green transition and climate protection. Alongside bureaucratic hurdles, high energy prices also hamper efforts towards climate protection in the economy. This particularly includes the availability of affordable green electricity in sufficient quantities, which many companies view as a lever for climate-neutral production. Another significant impediment is seen in the slow permitting processes for green projects. The EU's most crucial goal should be to address and eliminate these obstacles.

The Green Deal enhances Europe's climate protection leadership, but also widens the gap with global competitors in cost terms, potentially disadvantaging Europe's energy-intense industries. Hence, as European climate policy evolves, maintaining industrial capacity is crucial to prevent de-industrialisation. The Green Deal Industrial Plan addresses the EU's "Net-Zero" industries' competitiveness and the road to European climate neutrality, which is a positive first step.

The guiding principle of internationally oriented climate policy should continue to be the international harmonisation of climate protection standards and coordinated pricing of greenhouse gas emissions. Effective climate protection is only possible through new

investments in the energy transition and efforts at the global level. Measures limited to the EU will have only a minimal effect against the backdrop of the rapidly declining share of EU global greenhouse gas emissions.

To make a significant contribution to international climate protection, the goal must be to demonstrate to the international community that the EU can successfully combine climate protection and economic growth. Ideally, other countries will then follow this sustainable European approach.

Emission Trading System and Carbon Boarder Adjustment Mechanism

The EU ETS makes an important contribution to the EU's climate targets. Since its introduction, emissions from sectors covered by the scheme have been reduced by 36% across the EU by 2021 compared to 2005. However, the international competitiveness of energy-intensive industries facing global competition needs to be continuously monitored. Appropriate measures, such as strengthening existing mechanisms to protect against carbon leakage, are necessary to enable effective climate protection. For emissions-intensive and trade-intensive companies, rising CO2 prices pose a threat to their very existence. There is a risk that production capacities outside the EU will be expanded, leading to the import of more CO2-intensive products into the EU. Such a development would not only harm Europe as a business location but would also fail to curb climate change. On the contrary, there is an increased risk that the global emissions balance will deteriorate if European production is replaced by goods manufactured in less efficient plants in third countries.

As the EU ETS was revised by lawmakers only this year, many companies are already facing challenges to comply with new rules. In the short term, the EU should refrain from further changes to ensure planning security for the affected companies.

Alongside the revision of the EU ETS, the Carbon Border Adjustment Mechanism (CBAM) was also adopted. Designed as a protection mechanism against carbon leakage, it imposes comprehensive reporting obligations for companies from October 1, 2023. While there are numerous open questions regarding the implementation of the CBAM, businesses are concerned that the mechanism will not provide sufficient carbon leakage protection or may create new international competitive disadvantages in the manufacturing sector. In particular, the export side is not considered, thus losing international competitiveness. Therefore, the effectiveness of the CBAM must be carefully monitored and the mechanism must be adjusted where needed.

Moreover, The CBAM also carries the risk for the EU economy of provoking trade policy countermeasures from other economic areas, possibly leading to increased global protectionism. This could significantly harm the internationally interconnected European economy. Eurochambres believes that implementing the CBAM within an international and World Trade Organization (WTO)-compatible "Climate Club" among the G7 Members would reduce the trade policy risks for the economy. Efforts in this direction are seen as positive, however, making access to the Climate Club conditional on explicit carbon pricing will be critical.

Innovations and the role of carbon capture

Innovations and new technologies are pivotal for successful climate protection policy. As it

will not be possible to completely avoid CO2 emissions in all processes, we need new solutions for capturing, storing, and utilising CO2 (CCS/CCU). Even the Sixth Assessment Report from the Intergovernmental Panel on Climate Change (IPCC) relies on CCS technology in most 1.5-2°C scenarios. Consequently, we should stimulate innovations in climate protection through technology-neutral, bureaucracy-free, and swift funding measures.

Furthermore, suitable legal framework conditions are required for the construction of corresponding infrastructures in the EU and for CO2 export. The development and financing of respective infrastructure primarily rests upon the shoulders of either private or public operators. When sustainable competition is fostered, it can pave the way for efficient solutions, thereby reducing the need for government intervention. However, for these operators to confidently invest in CO2 infrastructure, a clear legal framework must be established. At present, some member states lack a comprehensive legal basis for using CCS, leading to an ambiguity surrounding the necessary prerequisites.

Opportunities and Challenges in Energy Technologies

Reaching climate neutrality requires significant transformations in all business sectors, thus underscoring the urgency to streamline and fasten permitting procedures for green projects. This applies not only to renewable energy and energy networks, but to every segment of our economy. Important steps have been taken in this direction through initiatives like REPowerEU, which redefined the Renewable Energy Directive. Now, similar efforts need to be carried forward in other legislative efforts.

“Energy Efficiency First” is one of the Commissions’ key principles which is addressed in the Energy Efficiency Directive. Increasing energy efficiency is crucial for companies as it helps them achieve climate protection goals and save costs. It is integral to effective energy management, driving innovation and new business models. However, simple measures have been widely adopted due to high energy prices, future efforts require substantial investments and complex implementation. Core processes now demand attention, posing increased entrepreneurial risk. The Commission shall base their policy instruments on market incentives, technological openness, and economic rewards for success. Knowledge exchange, as seen in efficiency networks, should be encouraged. Conversely, European companies largely reject final energy savings targets, as the means of CO2 reduction (energy savings or renewable investments) is irrelevant. Eurochambers opposes binding final energy savings targets but supports efficiency goals to enhance energy productivity. Climate neutrality is best achieved by avoiding CO2 emissions, disregarding operational or macroeconomic energy consumption.

In addition to fostering innovation, policy initiatives should prioritise strengthening knowledge transfer between businesses and academia. Encouraging early practical testing of concepts and applications in real-world settings can facilitate this process. The swift adoption of these innovations in day-to-day operations within the energy and climate sectors is a critical element in meeting policy goals. Consequently, regulatory flexibility, especially for SMEs and startups, plays a crucial role. This can be achieved through mechanisms like regulatory sandboxes, enabling swift adoption of novel, sustainable solutions.

Transitioning to a carbon-neutral economy also demands substantial investments in new technologies and infrastructure over several decades, primarily from businesses and any sustainability effort must be financially viable. Creating incentives that drive the transition to

sustainable products and economic activities is crucial. However, securing adequate financing options has become increasingly challenging, especially for small and medium-sized enterprises. The design of frameworks like the taxonomy appears to align with the requirements and opportunities in capital markets, neglecting the significant role of SMEs. This could result in decisive competitive disadvantages, particularly for SMEs without dedicated legal or sustainability departments.

Eurochambres, the Association of European Chambers of Commerce and Industry represents over 20 million businesses in Europe through 45 members (43 national associations of chambers of commerce and industry and two transnational chamber organisations) and a European network of 1700 regional and local chambers. More than 93% of these businesses are small and medium sized enterprises (SMEs).

More info and previous positions on: https://bit.ly/ECHPositions

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