

IFIEC Europe contribution to the consultation on Commission Staff Working Document - SWD (2021)277 final *For a resilient, innovative, sustainable and digital energy- intensive industries ecosystem: Scenarios for a transition pathway*

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5. General comments

Question What other comments would you like to give?

IFIEC Europe welcomes the opportunity to participate and contribute to the definition of the Transition Pathway for Energy Intensive Industries; this is one of the first and main step for the implementation of the UE Industrial Strategy adopted by the Commission on 10 March 2020 and updated on 5 May 2021 to take in charge the COVID-19 impacts and the lessons learned.

EU Industrial Strategy is one of the main building blocks of the EU Green Deal; its complete and fair adoption and implementation is a precondition to enable the transition towards a climate-neutral society.

EU Industrial Strategy goal is the twin transition (ecological and digital) towards climate neutrality and digital leadership for European industry; IFIEC considers that a Transition Pathway provision to focus not only on climate neutrality and circularity but also to move towards a zero pollution and a toxic-free Europe, seems too broad and risks reducing the effectiveness of actions to achieve the key objective of climate neutrality by 2050.

The main objective of the Strategy should remain to address the challenge to decarbonise industry while maintaining competitive and continuing to provide basic goods that downstream sectors and consumers require.

In this consideration IFIEC underlines that EU Industrial Strategy defines the following as necessary for a competitive transition:

- ✓ A coherent and stable regulatory framework

- ✓ Access to capacities and infrastructures
- ✓ Finance for innovation
- ✓ Reduction and prevention of raw materials strategic dependencies
- ✓ Access to abundant, affordable and climate-neutral energy
- ✓ Demand-side measures for climate neutral and circular products
- ✓ A global level playing field

IFIEC Europe calls for full consistency between EU climate ambitions and policies development and EU Industrial Strategy.

Transition to a net-zero carbon society is not economically and socially viable without a strong internationally competitive industry not only at the end of the process but also through the three decades transition period.

EIIs are capital intensive activities characterised by very long technical cycles: a long term and clear vision of strategy and implementation policies is needed to give the right investment signals and to reduce the risk of stranded costs and technological lock-in. Industry will be the driver on the way to climate neutrality through innovation, but needs support for increasing and additional CO₂ costs as well as a predictable framework to deliver low-carbon investments.

2.1 Resilience

What other issues in relation to resilience would you propose to be considered for this pathway?

IFIEC Europe fully agrees on the focus on prevention and reduction of strategic dependencies especially for EIIs that are highly exposed as identified by the Commission Staff Working Document and are at the starting point of several value chains. However, the focus should not only be on raw materials but also on energy sources in order to secure availability and competitive prices.

Moreover, Commission considers a challenge to resilience in the EIIs ecosystem various trade and competition distortion put in place by other global actors; also **lower climate ambitions must be considered and addressed through an effective global carbon price and an adequate protection from direct and indirect costs in order to prevent carbon and investment leakage.**

IFIEC Europe considers that a specific point on energy should be added in the list of actions to increase resilience in the EIIs ecosystem: **availability of abundant and competitive climate-neutral energy in a reliable and strong energy system is needed to make the transition viable**

and sustainable being electrification and low carbon fuels utilisation key drivers towards the decarbonisation of industry.

2.2 Sustainability

What other issues or barriers in relation to the green transition would you propose to be considered for this pathway?

The EII's play a crucial role for the European economy, **transformation towards climate neutrality is only possible with the contribution of industry**, through innovation and rapid marketability of climate-friendly technologies. **EU industry is clearly committed to climate protection** and the achievement of the ambitions set by the EU Commission and has already embarked on a challenging but necessary transformation path.

However, it must be considered that many of the foreseen technologies needed for decarbonisation are still far from a competitive cost level and, at the same time, industries are subject to global competition. Other breakthrough and more innovative technologies have not yet proven their potential and sustainability. In both cases **a strong and long-term support for R&D&I is needed**.

In the last two decades RES development and integration have been heavily supported and are still today; in the next twenty years decarbonization of industrial process will be equally necessary to deliver the EU climate ambitions and this need a comparable level of support.

We are aware that new technologies (pulled by environmental and social standards), while creating compliance costs, could also help to generate long-term competitive benefits and global market shares improvement. IFIEC Europe sees two issues to be dealt with in this respect: first, due to the long lasting of technological cycles of several EII's sectors and the very early stage of some innovative technologies, **time gap between rising cost and potential benefits is not affordable without an adequate support**, second, the **potential first-mover advantages could deploy their effects only if complete and strong European value chains are developed** in order to avoid the risk of easy and quickly technology transfer towards low-cost regions (as PV panels in the recent past).

What additional or different output scenarios for 2030 and 2050 (cf. actions table in the SWD) would benefit the development of a sustainable EII ecosystem?

IFIEC Europe shares the list of issues proposed by the Commission in the SWD and underlines the need of a strong and effective coordination between the Commission and MSs in order to:

- ✓ Support with a long-term vision, R&D&I for low-carbon technologies
- ✓ Adapt State Aids regulation to EU frameworks
- ✓ Ensure level playing fields and technology neutrality
- ✓ Facilitate and accelerate permitting process for new technologies and pilot projects
- ✓ Address unbundling issues

Moreover, two additional elements that could hinder the transition process or reduce its effectiveness should be considered and addressed:

- ✓ **To support the full exploitation of mature or close-to-market-parity technologies potential.**

In the fields of energy efficiency, demand side response and electrification there is still room for improvement that can bring results in the short and medium term with a very favourable cost-benefit ratio for the energy system. This contribution is necessary to deliver 2030 objectives, a timeframe in which fully innovative technologies are unlikely to have a significant impact. Therefore, to trigger this kind of actions by EIs (and other consumers) adequate regulatory frameworks and market signals are needed. Globally we consider policies based on incentives more effective than mandatory schemes which could lead to loss of competitiveness, market distortions, inefficient capital allocation. This is due to very uneven starting point across MSs, regions, sectors, undertakings and different timescales and costs of technology adaptations, innovation capabilities and opportunities, technological cycles and impact of decommissioning costs.

- ✓ Without **adequate protection from climate ambitions costs which are not borne by competitors**, EU industries will no longer be competitive and not be able to bear the costs of R&D&I and low-carbon investments.

IFIEC Europe emphasizes that legal security and economic framework conditions with effective and sufficient carbon leakage protection are crucial for the energy-intensive industries to maintain international competitiveness and at the same time enable the transformation towards a climate-neutral economy.

In addressing the challenges outlined here, how do you see the respective roles of the Commission, Member States, industry, social partners and other stakeholders?

IFIEC Europe agrees the need for EIs sectors to define and develop mid-century roadmaps consistent with climate ambitions that should be checked and up-dated during the transition

period, but at the same time considers that Commission should **continuously monitor the transition pathway effects on competitiveness**, social and economic growth and global scenario changes in order to adapt, if needed, actions, tools and targets.

3.1. Enabling regulatory framework

What more or different would be needed in order to support the transition? Which elements are missing or do you find insufficient in the current regulatory framework?

IFIEC Europe welcomes and fully supports the need, for EIs ecosystem, of a supportive framework including enabling regulation, sufficient financing, access to abundant and affordable climate-neutral energy and infrastructures.

Moreover, we underline the need of full coordination at European, national, regional and local level (avoidance of gold-plating) and of full consistency between EU Industrial Strategy and Fit For 55 Package. Any legislative proposal should be checked to be in conformity with the EU Industrial Strategy. Any market distortion and unlevel playing field should be avoided.

As already mentioned above, IFIEC Europe re-emphasizes the need of an effective and sufficient carbon leakage protection (including indirect costs). **Increasing climate ambitions and widening gap with other economic regions require strengthened protection measures.** IFIEC Europe presented specific and detailed contributions in the consultation processes for ETS Directive review and CBAM proposal.

As regard of RED review, IFIEC Europe is very sceptical about putting in place mandatory quotas for renewable hydrogen consumption in industry: this provision risks to generate unpredictable over-costs for the system without a clear vision as of if and when renewable hydrogen technologies, that are still in an early-stage development, can achieve an affordable level of competitiveness in generation and distribution. Principle of a technology neutrality and cost efficiency approach should be adopted. Therefore, production and consumption of renewable hydrogen do not necessarily happen in geographically correlated areas.

3.2 Financing of projects and activities

Where do you see gaps in the current funding landscape which put at a disadvantage the EI ecosystem?

EIs transition requests huge investments spread over a long period of time and with high uncertainty in results and returns. Without an adequate financing support EU industrial players can't deal with this scenario that undermines their future activities in Europe and triggers investment leakage.

IFIEC Europe is aware that the taxonomy will lead financing support for investments into climate mitigation, but draws attention to the need not to penalise investments in technologies essential to drive the transition period.

Several funding programs and financing support schemes are available for investors in innovative clean technologies, but not yet fit to the estimated investment needs that were proposed by the Commission; IFIEC Europe underlines that **a monitoring of the effectiveness and accessibility of these instruments is needed**. A continuous follow up of the actual utilisation and of the results is necessary for adaptations, in case of need, facilitating access and reducing administrative burdens.

Is there any incoherence between different funding streams which affects the transition in the EII ecosystem, and how could this be addressed?

As regard **State Aid framework**, IFIEC Europe, as already mentioned in CEEAG review consultation process, is concerned about the reduction of financing RES levies exemptions for EIIs as well as the decrease of eligible sectors that **seems not consistent with the aim to incentive electrification** as one of the main drivers for decarbonisation of industrial processes. IFIEC Europe questions whether State Aid is the right framework to drive climate action as it leads to high financial burden on the Member States and to a scattered carbon leakage framework over EU distorting the level playing field.

3.3 Infrastructure and energy needs

Where do you see shortcomings in the current infrastructure that would have to be addressed in order to support the transition of EIIs?

Trans European Networks for Energy (TEN-E) policy should be strengthened in order to develop interconnections, improve network security and stability, reduce capacity needs for adequacy; total cost of the system should be carefully assessed at EU and national level. Stable, predictable and flexible off-takes profiles should be rewarded in the network tariffs design; location signals should be also considered to boost electrification, demand side flexibility and to reduce RES integration effects for consumers.

Do you see any risk of stranded assets and misguided investments and how could this be prevented (e.g. through mid- to long-term roadmaps that inform investment decisions)?

IFIEC Europe fully agrees that **energy distribution systems and infrastructures require a fundamental change to support and enable transition; competitiveness and lowest total system costs should be the main drivers** of this transformation along with security and adequacy.

Wind and solar have not yet proven to be the cheapest energy sources in term of total cost of the system due to their distribution and intermittent and unpredictable generation. Risk of dependencies for raw materials and equipment are other potential issues that need to be addressed.

3.7 KPIs

Which KPIs should be used to assess the progress towards our transition objectives from each of the Commission, Member States, the industry, social partners and other stakeholders?

EIIs transition will be a very long a complex pathway; monitoring the progress is crucial and IFIEC welcomes the list of KPIs proposed in the SWD.

However, KPIs should also monitor effectiveness of policies and actions in supporting EIIs transformation and the occurrence of situations that endanger their competitiveness in global markets and their survival. With this aim, we propose to add the following KPIs:

- ✓ Energy (and strategic raw materials) prices vs competitors
- ✓ Accessibility to climate-neutral energies
- ✓ Share of investments in decarbonisation and climate mitigation financed by public funds
- ✓ EU market and investment shares in strategic sectors
- ✓ Adequacy and security of energy systems