Europe's Green Deal: mapping the route to 2030

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The revision of the 2030 emission reduction targets and the subsequent review of the EU climate policy will impact the millions of men and women that work in industries. IndustriAll European Trade Union calls the EU to build a credible pathway towards the revised 2030 emission reduction target. In order to avoid disruptive changes that would threaten industrial value chains and the related jobs within the EU, this pathway must mainly:

- **Bridge the investment gap** in order to accelerate the roll-out of the required technologies and infrastructures
- Be based on **in-depth sectoral impact assessments** to avoid unrealistic 2030 objectives that would undermine the EU industrial basis
- Provide **sectoral 2050 "climate neutrality" roadmaps** that will identify what industry concretely needs to cope with the revised targets in terms of technology development, infrastructures and skills
- Strengthen the **EU industrial leadership** in leading technologies and value chains that are strategic to reach the 2050 objectives as well as to fully tap its job potential
- **Relax EU State aid rules** to allow public authorities to better support the transformation of the industries
- Ensure a **level playing field** between EU producers and their competitors
- Leave no one behind thanks to **increased resources for the "Just transition fund"**
- **Involve trade unions** in the preparation of the review of the EU climate policy and promote workers participation to deal with its consequences for workers at national, regional, sectoral and company level

Background

In 2019, the European Green Deal has ascribed to the EU the objective to become a "climate neutral continent" by 2050. This means that the EU should be transformed into a net zero emission economy where every emission is compensated by an equivalent absorption and in less than 30 years! According to the European Commission, this level of ambition entails the review of the existing target for 2030 since the minus 40% (compared to 1990 levels) would not put the EU on track to reach carbon neutrality by 2050. As a result, the European Commission has proposed to increase the 2030 target to at least minus 55%. Process wise, this objective has to be endorsed by the European Council by the end of this year through unanimity and be integrated into the EU Climate law. It should be noted that the European Parliament voted in favor of -60 % as headline emission reduction target for 2030.

The scale of the challenge is huge when we look at available numbers. First, data shows (pre-covid) that the -40 % target for 2030 is out of reach with current policies and this is also true even if announced additional measures of National Climate and energy plans are taken into account. Second, compared to -

40 %, moving to -55% would mean almost doubling the efforts to reduce emissions by 2030[1] [see impact assessment] . Reaching the 2050 "climate neutrality" objective will not be easier since it requires to reduce greenhouse gas emissions by more than 128 MT CO2e every year whereas between 1990 and 2018, the EU has reduced its emissions by 47 MT CO2 e every year[2]. Reminding the scale of the challenge should not be seen as an attempt to undermine the Paris agreement objectives but rather as a necessary clarification exercise regarding what is at stake for workers.

In order to fill the deep climate ambition gap towards 2030 and 2050 targets, and provided that the European council endorses the -55% objective, the European Commission will come by the end of June 2021 with a series of legislative proposals clustered as the "Fit to 55% package". This will mainly contain proposals to revise the EU Emissions Trading System (ETS) Directive, the Effort sharing Regulation, the Renewable Energy and Energy Efficiency Directives as well as the Regulation setting CO2 emission standards for cars and the Third Energy package for gas. The EC will also make a proposal to set up a Carbon Border Adjustment Mechanism (CBAM). Those proposals will complement the measures already announced in the context of the European Green Deal.

As stated in the Policy paper adopted by the Executive Committee in November 2019 in Helsinki, industriAll Europe supports the plan of going climate neutral by 2050 if a 'just transition' is guaranteed. The aim of this document is to remind the key requirements that should be fulfilled to make the step up of the EU 2030 emission reductions targets reachable and to make the EU climate policy in line with the Just transition principles:

1. First, the design of the upcoming legislative proposals expected by the end of June 2021 under the umbrella of the "Fit to 55 package" must be based on a sustainable industrial policy that will secure good jobs while providing the necessary measures to transform EU industrial value chains.
2. Second, the measures that will accompany the step up of the 2030 targets must also support workers in sectors and regions the most exposed to decarbonization side effects.
3. Thirdly, trade union participation must be ensured at every step of the discussion from the European and national decision making processes to the sectoral and company levels.

We believe that our demand for a Just transition that leaves no one behind is even more important now that European workers are hit so hard by the unprecedented economic downturn created by the Pandemic.

Bridging the investment gap

[1] According to the Impact assessment from the European Commission reaching -55% requires -2,7% of annual reductions whereas the -40% corresponds to -1,5% of annual emission reductions.
[2] EEA Report No 03/2020 / Trends and drivers of EU greenhouse gas emissions

The emission reduction gap is also an investment gap. According to the European Commission, reaching the 40% target by 2030 would require on average EUR 336 billion additional investment per annum (constant prices of 2015), which is equivalent to 2.3% of GDP. The 55% compatible scenarios require on average EUR 438 bn of additional annual investment, which is equivalent to 2.7-3% of GDP. For the energy sector, it would mean EUR 7,7 Bn of additional annual investment (compared to the baseline scenario of reaching 40%) in power grid until 2030 and EUR 14,4 Bn in power plants. For industrial sectors, the additional yearly investment must be about EUR 3,4bn. This investment gap is made even deeper with the current economic downturn that impacts both liquidity of private companies and taxation resources of public authorities.

The EUR 750 bn made available under the umbrella of the Next Generation EU (NGEU) must be used to fill that gap, keeping in mind that NGEU is only available for 2021-2023. Beyond that date, the EUR 1 074 bn made available through the EU Multiannual Financial Framework for 2021-27 should be used as a massive stimulus to support efforts to decarbonize the EU industries. The climate spending target is welcome if it drives investments also towards sectors where low-carbon technologies are expensive and where the risk of investment related to emerging technologies is high. As a result, industrial sectors, and Energy intensive industries in particular should not be overlooked in the allocation of climate-related expenditures. The EU taxonomy for sustainable investment and the EU Green Bonds standards must identify investment in low-carbon technologies for industrial sectors as a political priority.

Given the investment challenge at stake, industriAll Europe strongly deplores the cuts that the European Council did on the 21st of July in key instruments such as Horizon Europe and Invest EU that must significantly contribute to attract private investment to accelerate the roll out of low-carbon breakthrough technologies in industrial sectors. industriAll Europe is worried to see that the Emissions trading auctioning revenues will be used as a resource for the repayment of NGEU. ETS auctioning revenues must be used in priority to finance innovation and infrastructures in sectors covered by the EU ETS, keeping in mind that ETS auctioning revenues are currently almost entirely collected at national level and mainly used by Member States for climate and energy related purposes. In the same way, the setup of a Carbon Border Adjustment Mechanism (CBAM) must lead to level the playing field between EU industrial producers and their main competitors. Its design cannot aim in priority to generate revenues to be used to repay NGEU. Again these revenues should in priority catalyse the transformation of concerned industrial value chains. Similarly, at least part of the tax revenue from non-recycled plastics should be earmarked to facilitate the increase of plastics recycling by promoting the necessary infrastructure and technology. To avoid to deprive industrial innovation of crucial resources it needs to cope with the EU 2030 and 2050 targets, the EU should contemplate in priority other options to reimburse NGEU. A Financial Transaction Tax and a Digital Tax should provide the bulk of the necessary resources.

However, filling the investment gap is not a task that can be managed with EU funds alone. Mainly this task will have to be financed by the member states and their budgets. The EU must also permanently pave the way so that member states can raise the necessary investments. This includes the abolition of the fiscal pact and the introduction of a golden investment rule in the stability and growth pact, which provides that investments in reaching the European Green Deal objectives are exempted from the European fiscal rules. This should go hand in hand with efforts to strengthen the EU cohesion policy across the board.

Companies have also a responsibility in bridging the investment gap. Tax fraud or tax avoidance have deprived public authorities of significant amount of public money that could have been used in support of reaching the "climate neutrality" objectives. In the same way, dividend policy of multinational companies undermine their capacity to invest in the modernization of the industrial supply chains. Companies have also a responsibility to use the results of EU funded innovation to invest and create jobs in Europe.

An industrial policy at scale

Keeping and building strong industrial value chains in the EU is crucial to reach the EU climate objectives since job creation will be among the main levers of public support for the EU climate policy but also because industries have the potential to deliver solutions to decarbonize the EU economy.

The review of the EU climate legislation related to the move to 55 % must be based on **2030 in-depth sectoral impact assessments** in order to identify what is achievable in the coming decade in the sectors at stake. It should be kept in mind that many industrial sectors cannot follow a linear emission reduction pathway with current technologies in use. Those sectors will require the roll out of breakthrough technologies to be decarbonized. In the same way, the heavy investments that are needed to transform installations in these sectors require a high level of confidence in technologies that are not often mature yet and 2030 is less than an investment cycle away from now. Hence, any revision of the regulatory instruments impacting a sector should first clarify the readiness level of the possible breakthrough technologies to decarbonize the sector at stake as well as the time and the investment needed to spread their use. Deciding on the revision of the EU 2030 EU climate instruments without having a clear picture of what is possible in the different sectors might put at risk industrial value chains and the related jobs. Such an approach would be a major strategic mistake.

The **EU Emissions Trading System** (EU ETS) has a role to play, certainly to further decarbonize power production, but it cannot be seen as the main driver of emission reductions, especially for Energy-intensive industries. Betting on the theoretical assumption that a strengthened ETS would trigger investment through a much higher carbon price, completely overlooks the variety of readiness of breakthrough technologies across sectors. According to available studies, putting the EU ETS in line with the 55% scenario would mean bringing the annual reduction of emissions from 2,2 % to 3,7%. Such a brutal modification raises a lot of fundamental questions for energy intensive industries. industriAll Europe will not accept to purely ideologic measures that would lead to an ETS disconnected from the reality of many industrial sectors. The EU ETS must be reformed in a way that will avoid disruptive changes for the industry and that will take duly into account the impact of the current economic downturn as well as the already existing competitiveness challenges (overcapacity on global markets, and competition distortion on the EU market due to state-owned enterprises from third countries and foreign subsidies). Time wise, any revision of the EU ETS that would increase the carbon price must be simultaneously accompanied by all the necessary measures to avoid carbon leakage, including a Carbon Border Adjustment Mechanism (CBAM).

In addition to a floor carbon price delivered by the EU ETS, the EU should develop "**sectoral 2050 carbon neutrality roadmaps**" with industrial stakeholders to identify sector specific needs in terms of

breakthrough technologies, innovation support, upfront investment, infrastructures and skills needs to prepare a qualified workforce. Where such plans already exist, they should be reviewed to incorporate new technology and regulatory developments as well as to check whether their content fits with the revised 2030 emission reduction target and subsequent policy revisions.

Additional horizontal instruments will be needed to create lead markets for industrial goods that will be produced through breakthrough low-carbon technologies. Public procurements, contracts for differences, product standards, are usually amongst the tools identified to reach that objective. The 2019 "Masterplan for a competitive transformation of EU Energy Intensive Industries aimed at enabling a climate neutral, circular economy by 2050" must now be translated into policy measures for the sectors at stake.

For industriAll Europe, it is of the utmost strategic importance for the EU to **build the European industrial leadership in value chains leading the transition** (among others: renewable energy, hydrogen, electro-mobility, batteries). As far as energy is concerned, the EU has a strong industrial know-how and historical leadership in manufacturing equipment and production. This must be kept and strengthened while respecting the technology neutrality principle as well as the specific circumstances of each member state. This is a matter of present and future employment but also a matter of strategic autonomy for the EU. Energy equipment must be seen as strategic and dealt with as such. iAE supports the joint development of European industrial clusters, such as the battery alliance, the European hydrogen strategy and offshore renewable energy hubs. The EU and its member states should prevent hostile and opportunistic takeovers from third countries and oppose plants and sites closures that could undermine the EU technological sovereignty regarding the low-carbon transition.

The EU industry will not be decarbonised in 30 years through a purely market-driven approach. The revision of the 2030 targets and of the EU climate policy instruments must also be coordinated with a **revision of the EU competition law, notably regarding state aids**. These rules should allow member states and subnational public authorities to better support industries on their path towards "climate neutrality". To avoid a fragmented approach across member states, the EU should also extend the use of the "Important projects of common European interest" to promote industry alliances along key technologies and sectors to reach carbon neutrality. In addition to the existing industry alliances on batteries, hydrogen-related technologies, raw materials, circular plastics, the EU should identify where additional coordination among member states is needed to create solid industrial value chains. A territorial approach must lead to a balanced location of industry alliances related projects across the EU.

Decarbonisation will require the quick roll out of new technologies or a dramatic scaling up of others that will exacerbate raw materials needs. The "Raw material action plan" must be adapted to the revision of the 2030 climate package in order to secure the supply of the necessary raw materials. The "circular economy package" must also, wherever possible, limit the use of primary raw material and significantly contribute to reaching the 2030 climate targets.

Just transition Mechanism and Funds must be scaled up

The Impact assessment of the European Commission has identified the sectors where employment will be the most impacted by the upwards revision of the 2030 climate targets. Without surprise, sectors related to extraction, transport and process of fossil fuels will be the most dramatically hit, notably with expected decline in employment equivalent to 50% for the coal industry. By nature, those sectors are highly concentrated and the concerned regions will go through important structural changes in a very limited period of time.

To avoid disruptive changes and to support industrial diversification in those regions, industriAll Europe has been requesting for years specific additional resources in the EU budget. The EU has heard that call and has launched a series of initiatives such as the coal region platform and has decided to set up a "Just Transition Mechanism" that will mainly rely on a "Just Transition Fund". Whereas the European Commission proposed to make 40bn Euros available to that fund in the context of the EU recovery plan, the European Council has decided to limit the JTF resources to 17,5 bn Euros. The reduction of the means available to support regions depending on fossil fuel industries is particularly shocking regarding the step up of the 2030 emission target. IndustriAll Europe calls for substantial increase of the Just transition resources to make them proportionate to the pace and intensity of decarbonization. It must be avoided that workers pay the price of decarbonization policies as otherwise this will lead into a backlash to the European project.

The current scope of the JTF seems limited to a series of sectors directly related to fossil fuel industries whereas the employment impact of decarbonization will be much broader. Surprisingly, the Impact assessment that accompanies the revision of the 2030 targets overlooks sectors such as shipbuilding, aerospace and automotive. These sectors are already amongst the sectors that are the most impacted by the COVID-19 and will be impacted by decarbonization through changes in regulations and in customers habits. Moreover, electrification of transport will significantly impact employment in the automotive since many jobs in the automotive sector are related to components that exist in internal combustion engines but not in electric vehicles. The European Commission must urgently assess the impact of the revised 2030 targets on manufacturing industries related to transport also to identify the regions the most at risk of disruptive changes.

Next steps

By the end of June 2021, the European Commission will publish a series of proposals to make the EU climate policy in line with the revised 2030 emission reduction target. The months ahead should be used by the EU policy makers to extensively consult stakeholders, including trade unions. industriAll Europe will play its role by providing to the discussion the views of the 7 million of industrial workers it represents and insisting on the pursuing of a genuine Just Transition that does not leave any workers or regions behind. industriAll Europe will continue to closely monitor the policy developments on this crucial topic, in close cooperation with its affiliates.