

The European Green Deal and the Revision of the CO₂ emission standards for passenger cars

IndustriAll European Trade Union Answer to the European Consultation – February 2021

FINAL

Disclaimer: This document captures the industriAll European Trade Union preliminary analysis. A more detailed policy document will be adopted later this year by the industriAll Europe Executive Committee

The aim of this document is to share industriAll European Trade Union (iAE)'s priorities for the revision of the EU Regulation setting CO₂ emission standards for cars. IAE supports the objective of building a just transition to make Europe the first climate-neutral continent by 2050. The bedrock of the EU approach to decarbonise the automotive sector must be a sound and comprehensive industrial strategy to transform the sector through investment and innovation, while providing the necessary support to the workforce through the transition. What is at stake in this consultation, and more broadly in the revision of the EU climate legislations impacting industry, is the future of the automotive industry and the related value chains in Europe that currently employ all together 14 million workers. Those men and women must have their say in the conversation. In order to manage this challenging transition strong and transparent industrial relations ensuring the close involvement of workers and their unions will be crucial.

Background

In the context of the European Green Deal, the EU has decided to bring its 2030 greenhouse gas emission reduction target from at least - 40% to at least - 55%. That revision is deemed necessary to allow the EU to become the first climate-neutral continent by 2050, as well as to be in line with the Paris Agreement objectives. As a result, the EU climate legislations will be reviewed on the basis of a comprehensive set of proposals expected from the European Commission by June 2021.

The transport sector is among the priorities of the EU Green Deal with the general objective to deliver a 90% reduction of transport greenhouse gas emissions by 2050¹. Emissions related to transport are responsible for 27% of the total greenhouse gas emissions of the EU-27+UK and road transport represents more than 70% of transport emissions within the EU-27+UK. According to official data, emissions from road transport were 26.8 % higher in 2018 than they were in 1990². As a result, the

¹ See the EU Green Deal Communication https://eur-lex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC_1&format=PDF

² <https://www.eea.europa.eu/data-and-maps/indicators/transport-emissions-of-greenhouse-gases-7/assessment>

European Commission has announced a series of measures to tackle these emissions, including a revision of the Regulation setting CO₂ standards for cars and vans³.

The EU legislation has defined mandatory emission standards for cars since 2009 through a Regulation that was last revised in 2019. The current rules system that started to operate in 2020 is based on the following elements:

- Manufacturers must reach EU fleet-wide CO₂ emission reduction targets for 2025 (-15% compared to 2021) and 2030 (-37.5% for cars and -31% for vans);
- A fine of €95 per gram applies for every vehicle exceeding the emissions limits
- Average test mass is taken into account;
- An incentive mechanism to support zero and low emission vehicles (ZLEV) – i.e. vehicles emitting less than 50 CO₂ g/km
- Manufacturers are allowed to pool their emissions to meet the emission target
- Derogations exist for small producers and niches
- Eco-innovations leading to improvements not taken into account by CO₂ measurement lead to credits for emissions savings

The European Commission has not announced any details yet regarding its plans to revise the current standards system, but according to its *2030 Climate Target Plan* Communication, the revision of CO₂ standards will be accompanied by an extension of the EU Emissions Trading System (ETS) to road transport and by road charging, through a revision of the Eurovignette Directive.

Moreover, the revision of the Alternative Fuels Infrastructure Directive should speed up the roll-out of the necessary recharging and refuelling infrastructures. Last, but not least, in the same document, the Commission will assess *“at what point in time internal combustion engines in cars should stop coming to the market”*.

In the ‘Smart and Sustainable Mobility Strategy’, the European Commission announces milestones to reach the transport related emissions reduction objective as defined by the European Green Deal. The Commission foresees that *“By 2030, there will be at least 30 million zero-emission cars”* on European roads. Again, the CO₂ standards for cars revision are depicted as an important driver of change, but without operational details.

1. An EU strategy to make the European automotive industry climate-neutral by 2050

To tackle climate and digitalisation challenges, status quo is not an option. The EU automotive industry must lead the transition towards climate-neutral-mobility through a massive transformation of the vehicles it produces to make them zero- and low-emissions, and through a rapid transformation of its

³ See the full list of initiatives concerning transport
[:https://ec.europa.eu/transport/sites/transport/files/legislation/com20200789-annex.pdf](https://ec.europa.eu/transport/sites/transport/files/legislation/com20200789-annex.pdf)

assembly lines and equipment suppliers. Despite recent positive developments, a lot remains to be done to cope with the climate-neutrality challenge in a way that will secure good jobs for workers of the whole supply chain.

Electrification of powertrains seems to be the preferred option of industry and consumers. Battery electric vehicles and hybrids have indeed been booming for a few years, both in terms of sales and production. For instance, sales of electric vehicles in Europe have increased by 135% from 2019 to 2020⁴. However, alternative technologies such as fuel cells, or renewable and low-carbon fuels will have a role to play for instance for heavier modes of transport or for long distance travel. All these options have advantages and raises a number of important questions that need to be tackled⁵. As a result, and given the relative uncertainties regarding the pace and the range of electrification, iAE stresses the need to keep **technology neutrality** at the core of the EU approach to decarbonise the automotive sector. Keeping decarbonisation technologically-neutral is also important to smooth the transition towards a climate-neutral mobility as well as to leave no worker and no region behind

The current EU approach to reduce cars emissions is based on a tank-to-wheel approach. Because some road transport activities cannot be easily electrified it is important to consider alternatives. A shift from the exclusive tank-to-wheel approach to a broader well-to-wheel approach would allow to decarbonise transports mode more difficult to electrify. A well-to-wheel approach also enables to tackle the emissions from the existing stock of cars, to supplement other policy instruments such as carbon pricing schemes (see below). The overall approach must use a life cycle analysis effectively reduce emissions rather displacing them in the value chain.

Technology neutrality does not mean to give a blank check to the industry and it does not exclude a strict control of performance nor prioritisation in terms of public funding. The development of renewable and low-carbon fuels has a role to play but it has to be strictly in line with the UN SDGs, to avoid that they lead to exacerbate existing problems such as deforestation, loss of biodiversity or land grabbing in the global South. In addition, their possible development should not delay progress in the roll out of more mature technologies and related infrastructures.

The uptake of alternative powertrains will only be possible if the necessary **infrastructures** are built at the same pace. Low-carbon energy production, electricity grids, hydrogen transport infrastructures, as well as charging and re-fuelling stations, will require massive investment by 2030 to make it possible to have at least 30 million zero-emission cars on the European roads , as aimed by the European Commission. The need to enable the electric vehicles uptake through the roll out of charging stations provides the best example of the current lack of infrastructure. With an objective of having 3 million public charging points in 2030 and only 213 thousands today, the gap to be bridged in terms of infrastructures development is huge. Additional funding should be made available for the EU programmes and initiatives supporting the roll-out of infrastructures enabling ZLEV uptake. The EU Recovery Strategy and the Recovery and Resilience Facility must significantly contribute to that objective, which would open the way towards climate-neutral mobility.

⁴ <https://www.iea.org/commentaries/how-global-electric-car-sales-defied-covid-19-in-2020>

⁵ See IAE 2020 position paper on the EU Clean Hydrogen Strategy: https://news.industrial-europe.eu/content/documents/upload/2020/11/637418934417314391_EN%20-%20Clean%20Hydrogen%20Strategy.pdf

The future of the European automotive industry will also depend on the location of the ZLEV equipment manufacturing. Locating the manufacturing of batteries and fuel cells must be a crucial objective of the EU. From that perspective, iAE supports the EU Battery and Hydrogen Alliances and requests an increase of their role and the resources they have. These industry alliances must trigger massive investment in production facilities and secure thousands of jobs in Europe.

The ambition to develop a European equipment industry for ZLEV must go hand in hand with a strategy to secure the **supply of raw materials and key components** such as semiconductors⁶. Circular economy principles must be applied to increase the quantity of secondary raw materials available for the industry, as well as to reduce the EU import dependency. However, recent studies suggested that recycled materials will only be at an adequate market scale in a decade as EVs lives end. Therefore we have to be realistic that primary extraction is crucial at least in the 2020s. As a result, the diversification of supply chains, as well as an EU green mining strategy, must ensure the security of supply for key raw materials. The EU Raw Materials Policy must be strictly in line with the UN Sustainable Development Goals and a mandatory due diligence that resources supply fully respect human rights, including workers' rights, in regions supplying raw materials. IndustriAll Europe fully supports the European Raw Materials Alliance and, as one of its active members, will actively promote the above principles. The same principles should apply to the components supply chains.

The EU and its Member States will also have an active role to play to stimulate fleet renewal and create lead markets for ZLEVs. Premiums, tax rebates and scrapping schemes should be strengthened and harmonised to incentivise consumers to acquire ZLEVs. Public procurements to renew public fleets should also aim at pulling the production of ZLEVs, whereas the progressive set-up of emission standards for company fleets would also dramatically expand their market. Additional measures, such as priority lanes, toll exemptions, or reserved parking space, could also encourage people to acquire these vehicles.

This EU strategy for a climate-neutral automotive industry should also have a trade and foreign investment dimension. As announced in its trade policy review communication and its White Paper to tackle foreign subsidies, the EU should look at balanced trade relations based on the reciprocity principle. Imports of cars from countries that impose market access requirements (creation of joint ventures, technology transfers) to EU companies should be severely restricted. In the same way, the EU should ensure a level playing field between domestic producers and importers, notably when it comes to the impact of the EU Emissions Trading System on industries supplying the automotive sector (steel and basic metal, glass, chemical industry).

⁶ <https://news.industrialall-europe.eu/Article/555>

2. The EU ETS is not an appropriate instrument for setting a carbon price for road transport

IndustriAll Europe is not in favour of extending the EU ETS to other sectors, including road transport, as proposed by the European Commission. Carbon pricing can provide an additional incentive to decarbonise sectors such as road transport, but the EU ETS is not the best vehicle to achieve that objective.

Including too many sectors with completely different features under the EU ETS might undermine its efficiency (risk of loopholes, lack of clarity on the carbon price and cap). Keeping in mind that it has taken 15 years and four reforms to build the current system and that phase IV only started in January 2021, we do not think that it is appropriate to completely revamp it by introducing new sectors that are so different to the ones already included.

The extension of the ETS could be detrimental to some sectors. Triggering transformative change in sectors such as road transport would require a carbon price at such a high level that it would threaten sectors struggling with tiny profit margins and fierce competition, such as steel and basic metals.

For the sectors at stake, such as road transport, there is already a set of existing instruments, and bringing ETS on top of them might lead to coherence challenges.

Including road transport in the ETS might entail distributional consequences detrimental to low-income households, especially in the poorest regions of Europe.

Even a separate ETS system for road transport would require regional differentiation, since carbon pricing cannot be the same across the EU given the different contexts and levels of prosperity. An affordable mobility is a key condition of social cohesion.

All these reasons are advocating for leaving national authorities to take the lead on carbon pricing for road transport. The Energy Taxation Directive can provide the basis for a minimum carbon taxation across Europe, as well as for the necessary coordination to avoid practices that would be detrimental to a well-functioning EU internal market.

3. CO₂ standards

As stated in its 2015 position paper, industriAll sees standards as key in reducing CO₂ emissions in the transport sector, as they spur innovation without imposing a specific technology option⁷. A revision of CO₂ standards in the context of the 'Fit to 55%' package must be based on a sound assessment of what is technically feasible and economically viable in the next decade. As already said, the uptake of ZLEVs will also depend on the pace to create the required conditions. A revision of the CO₂ standards is not an objective *per se*. It must foster investment and innovation in the European automotive industry and not favour the import of cars manufactured elsewhere in the world. It must also be kept in mind that the automotive industry is now approaching the limits of the incremental improvement

⁷ <http://www.industriall-europe.eu/committees/IP/PolPaper/AdoptedECDec15-CarsCo2-EN.pdf>

of conventional cars. What is needed to overcome the deadlock is negotiated policy planning, anticipation of change, time and money.

The revision of the existing flexibility mechanisms (such as weight factor, innovation credits) must clearly demonstrate that the flexibility mechanisms to be revised lead to significant hurdles in terms of CO₂ emission reductions.

In the same way, the emission tests used at homologation stage and during the lifespan of the vehicle must be based on science and the methodology used must be transparent.

Fines paid by manufacturers should be re-invested in innovation and infrastructure projects that benefit the sector.

4. A Just Transition framework

The current economic crisis has exacerbated some of the trends that are impacting employment in the sector. The intensification of the EU's efforts to decarbonise its economy, including its transport system, will impact even further workers of the automotive industry in many ways. Electric vehicles are less labour-intensive than conventional ones, and a third of the jobs in the sector could be lost. The share of hybrid vehicles will influence the employment impact of electrification. The same is true for the location of the battery industry, and giga factories popping up around Europe will lead to massive job creation. The EU must foster the geographical balance of these new investments and ensure that no region is left behind.

The development of infrastructures will have also a positive impact on employment. Depicting the employment impact of the automotive decarbonisation is not an easy task, but, given the millions of jobs at stake, having a clear mapping of this impact should be a priority for the EU. This mapping exercise should go beyond the traditional macro-economic modelling exercise and identify the regions and the parts of the supply chain most at risk of disruptive changes.

The ongoing structural transformation of the automotive industry also has qualitative consequences for employment in the sector. The shift to low-carbon and digital mobility will inevitably accelerate the shift of the skills profile of the workforce. The recent Pact for Skills, launched in the EU for the automotive sector, should support a quick review of curricula and must provide adequate support for workers in need of reskilling or upskilling.

Steering a Just Transition for the workers of the automotive industry requires, negotiations with trade unions as well as planning at company and regional level to anticipate and manage the changes ahead. Those Just Transition plans must be designed with the active involvement of trade unions.

At EU level, the automotive supply chain must be in the scope of the Just Transition mechanism, and regions highly-dependent on industrial activities threatened by the decarbonisation must be supported as regions depending on fossil fuels. Workers and communities depending on activities structurally in decline due to the climate agenda deserve the same support from the EU, whatever the sector. As a result, the resources available under the Just Transition Fund must be revised at scale. It

must be kept in mind that companies also have a duty to support workers during the transition, including financial support.