

The European 'Green Deal': From ever-higher targets to growth and competitiveness in the EU

The European Commission and its co-legislators should translate the European 'Green Deal' into concrete measures that foster sustainable economic growth. Merely increasing the EU's already demanding greenhouse gas reduction targets will not help. The EU recently set its climate and energy policy framework to reach a 40% greenhouse gas target until the year 2030, with Member States submitting plans to meet the targets by the end of 2019. National legislation is expected to be brought into line with European requirements within the next years. In this context, **the Green Deal should be built upon a framework that enables companies to contribute to the energy transition.** Europe does not simply need more climate policies - the EU needs climate policies that are more economically efficient. The EU should lead by example instead of acting as a lonely forerunner. This means proving that ambitious climate policies generate growth and economic welfare whilst simultaneously increasing the competitiveness of Europe's businesses. The Green Deal's framework enabling businesses' competitiveness should be built upon the following pillars.

1. Re-globalise the EU's climate policy

Effective climate change mitigation requires investments in energy transition at the global scale. Climate action that is limited to the European continent does not help to fight global warming. The EU's share in global emissions is less than 10% and will decrease further in the coming years, but the worldwide need for GHG emission reduction remains huge. Extra resources need to be invested wherever the costs of GHG abatement are the lowest - in most cases, these opportunities can be found in emerging and developing countries outside of Europe.

Therefore, **the EU should relinquish its 'all-domestic' reduction targets.** If the EU decided to increase its 2030 and 2050 mitigation

targets, the additional required reductions should be achieved at a global scale. Market mechanisms should be set up to trigger mitigation actions abroad that are then counted toward the EU's own climate protection goals. This could occur under Article 6 of the Paris Agreement, driving the demand for certificates that is needed to make such a global market mechanism work. Investments in climate change mitigation projects in developing countries also contribute to the goals of the European development policy and the United Nations' Sustainable Development Goals (for instance, Goal 7: Ensure access to affordable, reliable, sustainable and modern energy).

2. A global carbon price for a global level playing field

Climate mitigation policies can only be effective if all of the leading economies collaborate. As an important first step, **a global carbon price should be introduced, beginning with the most carbon-intensive sectors.** This is the most effective way to prevent industrial production from shifting to jurisdictions with lower or inexistent carbon prices (i.e. carbon

leakage). Introducing worldwide carbon pricing could also help to counter the current negative trend in implementing the Paris Agreement. Major global players have abandoned the Paris Agreement, and others have not yet supported their bold promises with concrete policies and financing.

3. Empower companies to source cost-competitive renewable energy

The energy transition is the business of all companies, especially small and medium-sized enterprises (SMEs). German and Austrian companies stand ready to contribute even more to the energy transition and the fight against climate change. **The EU can unlock their full potential by improving the conditions for the corporate sourcing of renewable energy, particularly self-consumption.** Regulatory frameworks in many Member States should be adjusted to facilitate higher shares of self-consumption and other types of corporate sourcing, such as power purchase agreements (PPAs).

Whereas a well-designed implementation of the Clean Energy for All Europeans Package (CEP) might be a first step, higher climate ambitions should translate into even bolder measures. **The EU should take a new initiative within the Green Deal to boost the corporate sourcing of renewable energy.** Charges and levies for self-consumed electricity should be phased out completely. Collective self-consumption should be made possible not only in buildings but also industrial zones. The Guidelines on State Aid for Environmental Protection and Energy (EEAG) should be brought into line with the new legal provisions of the CEP, which aim to boost renewable energy self-consumption in Europe.

4. Organise a genuinely European energy transition

For too long, governments have organised their energy transition at the national level. Progress has been made on the path toward Europeanisation, but there is still a long way to go. The Green Deal should focus on the **completion of the internal energy market.** Both the physical and the regulatory integration of the EU's energy markets should be deepened. Security of supply must be ensured at the European level and not via purely national-

capacity mechanisms. The latter should remain temporary and open for cross-border and consumer participation. Network infrastructure needs to be built wherever bottlenecks impede the efficient functioning of large and liquid energy markets. Finally, the regulations concerning permit-granting processes in the EU should be revised to significantly accelerate network expansion and reinforcement.

5. Protect industry against carbon leakage

Increased climate ambition in the EU must be paired with the effective protection of energy-intensive industries against carbon leakage. **If the EU Emissions Trading Scheme (EU ETS) was extended to other sectors, the need to protect industries that are currently under the EU ETS would be even higher due to higher carbon prices.** These required additional measures must be part of any consideration of an EU ETS extension. **National emissions trading schemes for sectors that are currently outside the scope of the EU ETS (non-ETS) should be harmonised across the EU to enable at least regional schemes.** Overall, a pan-European regime would be the best solution.

The EU should not abandon effective carbon leakage protection measures (such as free allocation in the EU ETS) until equally effective measures are set up and operational. While advantageous in theory, carbon border adjustments carry various risks in practice. Their World Trade Organisation (WTO)-compliant design might require a highly complex and bureaucratic system, the effectiveness of which remains to be proven. The EU should present a comprehensive impact assessment of multiple carbon leakage protection measures. Wider impacts on international trade (i.e. trade conflicts) should be a key criterion for evaluation. Agreeing on sectorial global carbon prices should be

privileged against any trade-restrictive measures.

6. 'Green' the gas sector in a cost-efficient way to benefit consumers

The deployment of renewable energy in the electricity sector has come at a huge cost due to inefficient support schemes for supply. The greening of the gas sector, which is required in the long run, needs to be driven by demand in the context of spreading carbon pricing. **All measures need to be tiered toward the goal of a cost-efficient market penetration of GHG-neutral gases.** GHG-neutral gases should be used in a targeted manner. Specific applications, such as the use of hydrogen as feedstock in industries and raw material in

refineries, or fuel cells in the mobility sector, offer considerable potential for market uptake that should be tapped first. **Unbundling should remain a guiding principle for the regulation in order to protect energy consumers' interests.** State aid rules should offer room to lower the costs of hydrogen that is produced with renewable energy by allowing at least temporary and partial exemptions from charges and levies.

7. Invest massively in R&D for new technologies to mitigate and capture CO2 emissions

The EU's ambition toward climate mitigation requires **huge investments in research and development (R&D) to spur the necessary innovation of new technologies.** In many industries, the target reduction levels are out of reach in terms of their current technologies and processes. Carbon capture and usage (CCU) technologies will be indispensable to handling process emissions. Carbon dioxide removal (CDR) is also needed in high-ambition

mitigation scenarios, as shown by the Intergovernmental Panel on Climate Change's latest reports and the European Commission's Long-Term Climate Strategy. **The need for a step-change in R&D investments in the EU should be reflected in the EU's next multiannual financial framework.** Further, it should be at the core of the Sustainable Europe Investment Plan, Horizon Europe, the Innovation Fund and InvestEU.

19 November 2019



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