

Cefic position on the European Climate Law

Cefic supports the Green Deal and Europe's ambition to become climate neutral by 2050. We therefore welcome the European Commission proposal for a European Climate Law enshrining the climate neutrality objective into legislation and aiming to achieve progress on the global adaptation goal.

Cefic also understands the need for a general scope: The Law describes in a clear and unambiguous way "*what*" the European Union (EU) aims to achieve, providing predictability for investors and society at large. The "*how*" is as important as it will allow the EU to turn this ambition into reality. With only 30 years left for the European society and industry to implement the necessary massive changes in capital stock and business models, we are facing an enormous challenge. Cefic underlines the necessity of an enabling framework and supportive policies being developed in parallel via dedicated legal instruments and support measures, to mirror our climate ambition.

For the longer-term (especially post-2030), the EU should fundamentally change its climate and energy legal and policy architecture, in order to meet the climate-neutrality challenge and the huge societal transformation that it requires:

- Gradually, policies should be able to capture the complexity of value chains, including the impact of circularity and technology developments over time. Products' footprint must be considered over the entire value chain whether originating from Europe or from abroad, including end-of-life in a circular economy;
- Waste incineration and industry should be dealt with in a comprehensive manner to support a circular economy;
- Climate policy must also be backed with a robust and comprehensive system of protection against carbon and investment leakage addressing both direct and indirect carbon costs in a more systematic manner and progressively considering consumption-related emissions;
- While the EU has a strong track record in promoting renewable energy, very few incentives exist regarding the promotion of renewables through "materials". "Climate-friendly" hydrogen for example, has been identified as a key solution (e.g. for the chemical valorisation of CO₂). It must be promoted not only as an energy carrier but also as an alternative feedstock source, based on their "best GHG merit" (i.e. GHG abatement cost based on a Life Cycle Analysis) in order to avoid competition distortions regarding access to this valuable resource;
- To achieve its transition towards climate-neutrality, industry will need much more low-carbon energy than today. As long as energy efficiency is defined as a limit on energy consumption of industry, Europe will face a trade-off with GHG reduction in Energy Intensive Industries: The Commission acknowledged the impact of the low-carbon transition on the electricity demand of industry due to direct and indirect electrification and shifting to alternative feedstock sources with a lower energy content. The Energy Efficiency Directive will have to be amended in order to take into account industry's growing demand for energy;
- We support a smart sector integration approach as it will help in achieving our climate objectives at the lowest possible cost. The role of industry must be fully recognized in that context and the strategy should go beyond energy, also considering the impact of materials flows.

Special attention must also be paid to the pace of international progress in fighting climate change. The EU is one of the biggest global trading blocs. A disconnect between the EU's ambition and those of our trading partners will leave us with the worst of both worlds: absence of progress in mitigating climate change globally and a weakened EU economy, if the measures flanking the policy choices are not adequate or properly implemented.

While supporting the general intent of the draft Climate Law, Cefic would like to put forward a number of proposals aiming to clarify, complement or adjust certain provisions by ensuring:

- A sound and detailed definition of climate-neutrality providing a signal for long-term investments;
- A level-playing field for industry across the EU through Union-wide emission reduction mechanisms (i.e. the EU ETS);
- That all sectors of the economy contribute to the climate-neutrality objective through fair burden-sharing;
- Progress on the enabling framework for the transformation of the EU economy, in line with the trajectory for achieving climate-neutrality;

A sound and detailed definition of climate-neutrality providing a signal for long-term investments

A clear definition and accounting framework are particularly important for the chemical industry, which according to the Commission scenarios is expected to absorb significant quantities of CO₂ in its products.

Article 2 sets the definition of climate-neutrality but does not specify whether the accounting will be based on yearly total balance or whether it will have a different timeframe. If the intention is to continue with accounting on a yearly basis, it should be clearly stated in the Law.

“Collective achievement of the target” is an unclear notion that needs to be clarified, also for reasons of legal enforcement. The EU needs a coordinated response to the threat of climate change at the Union level. It is therefore important that the future framework, while taking into account national specificities, does not lead to a nationalization of climate policy and fragmented action inside the EU. Union-wide mechanisms like the EU ETS guarantee a level playing field, which is essential to avoid competition distortions inside the Internal Market. In the future as well, Cefic is strongly in favour of an EU-wide GHG target and compliance mechanism(s), in particular for the manufacturing industry. Other policies in the field of renewable energy and energy efficiency should only be supportive to the GHG reduction mechanism.

As negative emissions are expected to play a greater role towards 2050, it is important to clarify, under which conditions industrial sectors will be able to report negative emissions. Today LULUCF falls under the effort-sharing sectors but ownership of natural sinks could be a way for manufacturing companies to compensate for their remaining emissions. Accounting rules must clarify whether emissions in a certain Member State can be compensated with negative emissions in another Member State. It remains important from Cefic's perspective that trans-border GHG projects are eligible for GHG reduction accounting. We expect that Europe will rely on energy and resource imports to reach climate-neutrality. The European Commission should also develop clear and IPCC compliant accounting rules for these imported resources, defining their contribution towards the objective of being climate-neutral as a continent.

All sectors of the economy need to be on board to reach the climate-neutrality

Climate targets shall reflect the ability of different sectors of the economy to achieve significant GHG emissions reduction the short-, mid- and long-term. Cefic invites the Commission to give more details, beyond the Long-term Strategy in depth-assessment, on how it will approach “hard to abate” sectors and detail its proposals regarding effort sharing between sectors, also in the longer-term. The climate-neutrality scenarios (1.5 LIFE and 1.5 TECH) should be transposed into concrete action plans for individual sectors, including those, which are expected to be largely carbon negative by 2050, like chemicals.

Due to their different elasticities to the price of carbon, different sectors of the economy still require separate schemes. In the long-term, global pricing is needed as well as a progressive convergence of the carbon price signal across the economy.

An enabling framework will be the key to success

By themselves, prescriptive measures such as an increase of the EU ETS Linear Reduction Factor or further reducing the cap on energy consumption will not allow the EU to reconcile climate ambition and economic welfare. The Commission should clearly identify all the necessary pre-conditions and enabling measures (at Union and national level) that will put the EU on track to meet its climate-neutrality objective without harming its economy. If the EU is determined to help raise global ambition and lead by example, the Green Deal must be an environmental, social and economic success.

Trajectory for achieving climate-neutrality

Cefic looks forward to a detailed impact and feasibility assessment regarding the trajectory towards 2050, notably the 2030 GHG target and beyond. For industry, an indicative target for 2040 could stimulate investments. It might also be a more relevant timeframe than 2030, as we expect that disruptive technologies will be deployed on an industrial scale at the earliest at the beginning of the next decade. The design of the trajectory towards 2050 should include regular check points regarding progress on the enabling conditions for the transition of the economy, the expected rate of deployment of breakthrough technologies, availability of resources and global progress towards the objectives of the Paris Agreement. A possible increase of Energy Intensive Industries’ carbon leakage exposure should be assessed alongside the revision of the 2030 climate targets as it is inherently linked to our climate targets. Carbon leakage measures should be commensurate with and effective for the high level of pursued climate ambition.

While emphasizing the need for a sufficiently stable and predictable framework for investments, Cefic supports a regular review of the EU trajectory towards climate-neutrality on a five-year rolling basis. Pathways towards climate neutrality will not be linear. Breakthrough of necessary technologies, resource innovations and major infrastructure improvements can enable step-change reductions in the future, which are not possible today. Different investment steps from innovation to implementation will also lead to a non-linear impact on EU emissions.

The climate-neutrality objective refers to EU production emissions. As the EU represents around 10% of global emissions, and this share is expected to decrease in the future, it is important to monitor also emissions related to consumption in order to preserve environmental integrity of climate policies and monitor carbon leakage.

Delegation of power for setting out the trajectory at Union level between 2030 and 2050 must be carefully assessed in light of the legal limits and conditions established by the Treaty and EU case-law, in particular the requirement not to touch on the essential elements of the legislative framework. In Cefic's view, while we support a set of objective criteria to define our level of climate ambition, setting out the trajectory would still require political choices that fall within the responsibilities of the EU legislator.

Adaptation to climate change

As the impact of climate change are starting to materialize also in the EU, we agree that climate adaptation should be a pillar of the climate law, alongside with climate mitigation. We support the Commission's intention to enhance the adaptive capacity, strengthen the resilience and reduce vulnerability of the EU and its Member States. We believe a dialogue is also needed on how financial resources will be allocated between climate mitigation and climate adaptation, as financial resources will certainly be limited, leading to potential trade-offs. Where synergies between both objectives are available, they should be privileged.

Third countries' climate ambition has a major impact on EU adaptation costs, since they represent the remaining 90% of global emissions; hence, this element should be addressed transparently in the implementation of the Climate Law.

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About Cefic
Cefic, the European Chemical Industry Council, founded in 1972, is the voice of large, medium and small chemical companies across Europe, which provide 1.2 million jobs and account for 16% of world chemicals production.

Impact of COVID-19

The COVID-19 outbreak has affected us all in one way or another. It has disrupted the way the EU institutions, Member State governments and companies all across the world operate. Times like these require a pro-active, flexible and innovative response. Understanding their responsibility in this unprecedented crisis, Cefic's members have been pushing their capacity limits to meet the exponential rise in demand for essential supplies in the countries where they operate. In an attempt to list the various actions, we have created the webpage: [Our Industry's Response to COVID-19](#). We invite you take a look.

