

## Cefic response on the Commission public consultation on a EU climate target for 2040

The chemical sector is a priority industrial ecosystem in the EU<sup>1</sup> due to its critical and strategic role as supplier of several other value chains and clean technologies. As such, a successful European transition towards climate neutrality needs to go hand in hand with a sustainable and competitive European chemical industry.

The European Chemical Industry supports the EU ambition to become climate neutral by 2050. Considering the challenges in the transition towards 2050, the chemical sector, with its long investment cycles, needs a supporting and coherent regulatory framework to secure the investments necessary to deploy and scale up disruptive technologies.

This requires an impactful industrial policy underpinning the transition to 2050. Such industrial policy has to deliver, already as of today, a business case for investing in the EU by: (1) providing infrastructure; (2) supporting operating costs, and (3) addressing structural competitive disadvantages.<sup>2</sup>

On these bases, when assessing the 2040 target the European Commission should first and foremost undertake a comprehensive analysis that takes into account: (1) additional investments needed to reach the ambitious 2030 targets, (2) the pace of investments in renewable and low-carbon energy, feedstock and the related infrastructure, (3) the impact of the ongoing energy crisis on industrial competitiveness. Such analysis should also take into consideration the contribution of transformative technologies in emissions reduction and the EU-specific cost of both emitted and avoided CO<sub>2</sub>.

Furthermore, setting ambitious climate targets needs to be coupled with a thorough analysis of the impacts expected on the entire chemical value chain, on imports and exports. In this respect, climate and industrial policies adopted by competing economies and their impact on the attractiveness of low-carbon investments in Europe, should also be addressed as the pace of the transition is interlinked with the industry's competitiveness.

Moreover, the timing of this exercise entails that the impact assessment will need to make assumptions on important elements. Progress on the EU's emissions reduction depends on the implementation of the Fit for 55 package, which has only just started. As EU policies need to take into account the global perspective, it is also important to better understand how the rest of the world is advancing on climate mitigation. Cefic asks the Commission to carefully consider such important unknown variables.

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<sup>1</sup> European Commission, Transition Pathway for the Chemical Industry, [DocsRoom - European Commission \(europa.eu\)](#)

<sup>2</sup> For more detailed information see Cefic position paper "Net-Zero Industry Act not ready for the obstacle race of global competition to climate neutrality", May 2023. Available at: [Fact Sheet \(cefic.org\)](#)

Given the above, the 2040 public consultation document is surprisingly lacking any reference to policies and measures needed to support industry's transition towards climate neutrality. It is worth reiterating that the transition to 2050 can be successful –and a source of inspiration for other regions in the world– only if matched with investments in emissions reduction and a competitive and thriving industry in Europe.

For these reasons, we strongly invite the European Commission to factor in the analysis of the 2040 target the following four main aspects:

### **1. Support for strategic industries, such as the chemical industry, in their transition towards carbon neutrality**

Europe is the second-largest chemicals producer in the world<sup>3</sup>. However, the last crises, high energy prices and the lack of a solid policy framework supporting investments are hampering the sector's competitiveness. For a successful transition of the chemical industry towards climate neutrality, huge investments and vast amounts of affordable low-carbon and renewable energy are needed, amongst others.

Next to the need for high capital investment for the technologies and to modify the production processes, the transition of the chemical industry also requires high operational costs such as for energy, considering that a chemical industry fit for 2050 will have considerably higher energy needs than today.

When assessing the target, it will be important that all technologies that can contribute to climate-neutrality are evaluated. For these reasons, the chemical industry would need:

- Solid funding solutions to support low-carbon investments in the chemical industry for both CAPEX and OPEX support, avoiding distortions of the EU Single Market. In this regard, Europe should take inspiration from the US Inflation Reduction Act (IRA) incentives.
- Enabling conditions to underpin investments, such as: sufficient volumes of cost-competitive renewable and low-carbon energy, infrastructure (for both electrons and molecules), access to alternative feedstock sources.
- Support for all scalable technologies that can contribute to the climate targets.
- Industrial symbiosis and clusters to foster Research & Development (R&D), implementation at scale and innovative technologies.

### **2. Mitigate the risk of carbon leakage with adequate measures**

Reducing industrial emissions in Europe should not lead to outsourcing parts of the value chain elsewhere. The assessment should, therefore, evaluate how the manufacturing industry can effectively contribute to the climate ambition without losing EU's manufacturing capacity during the transition, and avoiding that this leads to higher global emissions. Therefore, the carbon

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<sup>3</sup> Cefic Facts and Figures, 2023. Available at [2023 Facts and Figures of the European Chemical Industry - cefic.org](https://www.cefic.org/2023-facts-and-figures-of-the-european-chemical-industry)

leakage framework needs to address not only the EU-specific cost of emitted CO<sub>2</sub>, but also the cost of the avoided CO<sub>2</sub>.

Moreover, the EU carbon leakage framework needs to address the difference in production costs of EU installations vis-à-vis non-EU installations, in order to maintain attractiveness for investments in emissions reduction and new installations in the EU.

Therefore, in scrutinising appropriate measures to prevent the risk of carbon leakage, the Commission impact assessment should analyse, inter alia, if the current linear reduction of the ETS emissions cap for the power sector and manufacturing industry effectively helps driving the low-carbon transition.

In addition, it should be noted that industry in Europe faces significant CO<sub>2</sub> costs that are not mirrored outside of the EU. At the same time, technologies to reduce Greenhouse Gas (GHG) emissions are under development, often require considerable time to be implemented, and may not necessarily result in lower-cost products.

Lastly, while the chemical industry supports initiatives to incentivize CO<sub>2</sub> reduction measures in third countries, the Carbon Border Adjustment Mechanism (CBAM) lacks carbon leakage protection for export, which would result in EU producers losing market share. Additionally, if the CBAM does not apply to the full value chain, there is a risk of circumvention leading to increased imports of finished goods, further reducing the market share and the added value of EU installations, which is counterproductive to global climate action.

### **3. Develop a circular and sustainable carbon economy**

Enhancing carbon circularity is a key enabler for climate neutrality and to prevent the increase of carbon concentration in the atmosphere. Alternative and sustainable sources of carbon such as bio-based, CO<sub>2</sub>-based and recycled carbon molecules play a crucial role in the transformation of the chemical value chain, thus reducing the industry's dependence on virgin fossil carbon. This transformation can be successful only if the accessibility and availability of material resources is improved and is competitive for the EU industry.

Moreover, the circular carbon economy requires robust monitoring and reporting. It is crucial that this is done through a robust accounting system in ETS and non-ETS sectors. The objectives should be that all GHG emissions are accounted for based on their origin, including transfers between monitoring systems so it does not lead to either no reporting or double reporting of emissions.

In this respect, many obstacles need to be overcome:

- There should be no additional (double) accounting by surrendering of allowances in the ETS for CO<sub>2</sub> captured and built into products if the accounting of any CO<sub>2</sub> released in the end-of-life treatment of such products is already accounted for either in the ETS (e.g. cement kilns) or non-ETS sector (e.g. waste incineration).
- Access to sustainable bio-based feedstock. Market distorting policies and disproportionately high import duties prevent European companies to access the volumes

needed to upscale such option. Mechanisms that support bio-based feedstock availability, competitiveness and market demand in the EU should be introduced.

- A rapid scale-up of recycling technologies capacity is needed to deliver on the EU circular economy. Chemical recycling can deliver materials needed by the chemical industry as alternative feedstock while boosting the circularity of chemical products. An enabling EU policy framework, adopting a mass balance chain of custody method with a fuel-use exempt model to calculate the chemically recycled content in plastics and chemicals is needed to foster investments and to allow for a smooth and rapid transition to leverage recycled feedstock in existing infrastructure.
- Carbon Capture and Utilisation (CCU) faces regulatory barriers that need to urgently be overcome. Particularly carbon accounting rules under the EU ETS need to be reviewed in order to reward investments in this technology and remove double counting of GHG emissions.

Enabling conditions for access to economically viable renewable and low-carbon energy sources and feedstock substitution need to be implemented alongside the management of demand pull measures to create an integrated value chain and a European competitive market.

#### **4. Allow access to carbon removal certificates for industrial installations**

Emissions reduction should remain the top priority. However, carbon emissions from hard-to-abate sectors are still to be expected in 2040 and beyond. This has been repeatedly reported in literature, including the 2023 IPCC Report on Climate Change<sup>4</sup> and in the Commission's in-depth analysis accompanying the Long-term strategic vision.

Access to robustly verified carbon removal certificates, generated both within and outside Europe, for industrial installations under the EU ETS scope is a necessary precondition to tackle hard-to-abate emissions, while investing in low-carbon solutions.

Moreover, the regulatory framework should also stimulate new innovative technologies to avoid or remove CO<sub>2</sub> from the atmosphere, while maintaining a robust accounting system. For instance, when the CO<sub>2</sub> is sourced from sustainable biomass or directly from the atmosphere (Direct Air Capture) is captured and geologically stored (Carbon Capture and Storage) or captured in products (CCU) it should be accounted for as negative emission.

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<sup>4</sup> "While reaching net-zero CO<sub>2</sub> or net-zero GHG emissions requires deep and rapid reductions in gross emissions, the deployment of CDR to counterbalance hard-to-abate residual emissions (e.g. some emissions from agriculture, aviation, shipping, and industrial processes) is unavoidable". Source: [AR6 Synthesis Report: Climate Change 2023 — IPCC](#)

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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 15% of world chemicals production.