

Public consultation on the “2030 Climate Target Plan” - EU climate ambition for 2030 and design of certain climate and energy policies

COMMENTS BY AFEP (FRENCH ASSOCIATION OF LARGE COMPANIES)

AFEP, the French Association of Large Companies, **welcomes the European Commission’s stakeholders consultation** in view of the impact assessment on the EU climate ambition for 2030 and the design of certain climate and energy policies.

AFEP answered the consultation taking into account the points of views of its [member companies](#) whose activities **encompass all sectors of the economy**. As a general rule, our answers **do not aim at providing an immediate position on the general level of ambition for EU climate targets by 2030**, as it will result from the analysis of the impact assessment itself. They are focused on **key learnings** from our past experience of the existing legislative tools dedicated to energy and climate, and include **areas of possible improvements that can still be tapped** in the context of the European Green Deal. Given the predefined character of answers in the questionnaire and the **limited possibilities for providing precisions to chosen answers**, AFEP considers it necessary **to recall** in this paper **its overarching position while expressing more detailed and nuanced views on some issues raised**.

AFEP member companies remind their support to the target of the Paris Agreement by respecting regulations and taking voluntary commitments to lower their greenhouse gases (GHG) emissions where they operate, generally at a worldwide scale.

The current COVID-19 pandemic clearly showed the difficulties to react to **unexpected** events at the global level. In this context, companies consider that the **next ten years will be crucial** to provide solutions to address the **expected and already quantified risk of climate change**, while taking into account the need for **social acceptance as well as economic and competitiveness constraints**.

The impact assessment will be **a huge challenge** as it will examine **many policies** (eg: Effort Sharing Directive, Emissions Trading Directive, Renewable Energy Directive, Energy Efficiency Directive...), covering a **wide range of sectors**.

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AFEP member companies are committed to make the European Green Deal a success. They also wish the measures presented by the Member States in their Energy and Climate National Plans **will trigger GHG reductions matching with the current required level of ambition**. Those projected efforts **will have to be amplified in view of more stringent 2030 climate targets** (-50% or -55% by 2050 compared to 1990 vs the current - 40 %).

The upcoming 2030 climate target impact assessed plan should better **strike the right balance** between current and forthcoming **GHG emission constraints**, and **more significant support to further develop low carbon solutions inside the EU** - from the R&D phase until their rollout.

The following enabling factors will be key for companies to assess the feasibility of each of the two envisaged GHG emission reduction scenarios (in particular -50% and -55% by 2030, compared to 1990 within the EU):

- stimulate competitiveness and improve EU attractiveness for investments (including to trigger industrial relocation) with appropriate measures, preferably based on carbon footprint, after a thorough assessment of a carbon border adjustment and other relevant trade measures; in this view, identify whether an EU target based on carbon footprint would be feasible;
- factor in hypotheses on the level of the European ambition for 2030 and explore a possible higher ambition at EU level, preferably synchronised with forward moves by other Parties of the Paris Agreement;
- define how to trigger the right amount of low carbon investments needed in the EU in close relation with economic decision-makers, taking into account the relevant timing of investment cycles for each sector;
- building upon the communication “Europe’s moment: repair and prepare for the next generation” and the green transition investment gaps¹, identify how to boost the appropriate level and type of R&D&I activities and the rolling out of low carbon technologies in the EU with relevant funding. Determine as well how to promote new economic models fostering the maximum usage and sharing of existing infrastructures in an "economics of commons" and "life cycle analysis" perspective, while avoiding pass-through costs onto trade-exposed companies;
- set up an acceptable effort sharing between EU ETS and non-ETS sectors, based on the analysis of international competition, technical feasibility, marginal abatement costs and social acceptance; indeed, the - 55% target may nearly double the linear reduction factor for ETS; special attention should be dedicated to carbon leakage measures and compensation of indirect costs;
- define carbon reduction costs pass-through impacts on all value chains throughout relevant economic sectors and the ability to absorb these additional costs by the end-users;
- determine the conditions to be met to ensure the consistency and the economic feasibility of the carbon tools (taxes, allowances, regulations, standards) which will be chosen for further implementation;
- define how to take into account internal and external competition in view of the State Aid Guidelines on energy & environment and ETS updates;
- maintain the existing scope of the EU ETS, while favouring international regulation for the maritime sector facing international competition; avoid any inclusion of sectors within the EU ETS that would lead to market disruptions and create additional risks for trade-exposed and energy-intensive industries already in the scope of EU ETS. In this regard, the extension of the EU ETS to other EU economic activities is not an option favoured by AFEP.

Member companies would like the impact assessment to clearly spell out all significant hypotheses used by the models for economic, environmental and technological data evaluation, as well as their level of certainty. They consider important to discuss the conclusions of modelling exercise with stakeholders and to be fully involved in this process.

Given this framework, AFEP considers priorities should be given to the following opportunities and challenges:

- Focus the assessment on the low carbon investment needs and the possibilities to channel adequate resources alongside social measures to revive the EU economy after the COVID-19 pandemic; we regret that the questionnaire does not address this issue although it is essential for the success of more stringent EU climate targets by 2030.
- Maintain the EU leadership on climate mobilisation at the global scale, while addressing the risks of competitive distortions and carbon leakage through measures such a carbon adjustment mechanism or other equivalent international trade tools; AFEP is carrying out an in-depth study on potential provisions to set up a level-playing field and will be ready to communicate key findings to the Commission by the end of the Summer.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098&from=EN> (see page 17)

- Address the energy efficiency potential of the building sector (households and tertiary) as an emergency. Once assessed, the EU should devote significant fraction of its Recovery Plan to tap this potential through comprehensive deep-staged renovations.
- Factor in GHG emission past performances of the EU industry in view of possible new 2030 targets and develop a strategic thinking on GHG emission footprint (including direct and imported emissions) as part of an overall environmental assessment in relevant EU legislation, in order to raise awareness on the risk of “imported emissions” and the need to maintain a carbon-efficient industrial base within the EU.
- Recognise the importance of energy and industry sectors as key drivers to maintain the whole value chains and associated employment within the EU.
- Accelerate phasing-out of solid fossil fuels on-the-ground and the incentives to shift to a mix of more sustainable energy sources with switch solutions based on workforce skill transitions.
- Integrate natural gas as a relevant transitioning energy carrier in the next decade with a need from now on for significant growth of renewable gas.
- In order to enhance the decarbonisation of industrial processes, promote alternatives to traditional carbon content energy sources (e.g.:coal and heavy fuel oil) such as biomass, waste to energy, waste heat recovery and refused derived fuels.
- Dedicate an appropriate international taxation for the maritime transport sector which is subject to international competition, rather than include it in an extended ETS.

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AFEP wishes to add precisions to specific sections of the questionnaire:

Part I

- Question 1.3: AFEP considers that the answer on the balance of opportunities and challenges for a raise of the climate ambition has to be **an outcome of the impact assessment analysis**; by design, it cannot be an input to the assessment.
- Question 2.1: In the context of this question dedicated to the contribution to climate efforts by the different economic sectors, AFEP considers special attention should be given to **enabling and transitioning** activities, as well as cross-sectoral activities, with a call to the European Commission for **setting up a framework to value avoided emissions**.
- Question 2.5.1: AFEP supports incentives to **accelerate the shift from solid fossil fuels** to a mix of more sustainable energies. The phasing-out of solid fuels should be **carefully coordinated** with social policies, especially in terms of workforce skill transition (training of the redundant workforce), to ensure social acceptance as well as fair and just transition.

Part II

- Question 5.1: This question addresses the share of additional efforts between Effort Sharing Regulation, ETS and LULUCF activities. **The share of free allocation for industry should remain stable** (as mentioned in question 5.2.1), provided that a solution for setting up a level playing field with non-EU actors is implemented (possibly through border carbon measures or equivalent international trade provisions).
- Question 5.2: French companies believe that more stringent objectives for the EU ETS sectors could be achieved **through various measures to be carefully assessed**: the possibility of an increased linear reduction factor or a price floor set at the current level of the spot market for EUA. A possibility which is not mentioned in the questionnaire should also be analysed: **the setting up of a higher proportion of free allowances compared to auctioned allowances**, considering the production of more electricity from renewable energy sources, and the need to avoid the triggering of the cross-sectoral correction factor (CSCF) for industries exposed to international competition. Member companies wish for the impact assessment to examine whether a **board of experts gathering all types of stakeholders and possibly regulators** could be set up and gathered regularly in

order to give **recommendations to the European Commission** and to ensure that technical instruments dedicated to the functioning of the EU ETS are **well-calibrated**.

- Question 5.3.1 (Pricing building and road transport): **Carbon pricing should be complementary** to other specific tools, such as minimum performance requirements; an EU harmonisation is necessary for energy taxes, but it will not be sufficient to boost climate action in those sectors.
- Questions 5.3.2 and 5.3.3: If an economic tool was to be implemented, it would be preferable to **use a taxation tool for the building and/or the transport sectors** (apart from the air transport sector which is already part of the EU ETS for intra-EU flights), with a view to increasing convergence of tax rates. However, should a tradable GHG system be chosen, it would be essential to conceive it as a **separate ETS** from the current EU ETS covering energy and industrial sectors, in order to prevent sudden shock in the demand for allowances. Such a shock may cause **sudden competitive distortions** for the EU industry with much higher allowance prices in the spot market.
- Question 5.6: Alongside the EU legislation mentioned as possible answers to this question, it is important to mention **on equal footing, the Energy Taxation Directive, the Energy-Environment State Aid Guidelines and the EU ETS State Aid Guidelines**. A revision of the Energy Performance Building Directive could also be envisaged in order to introduce compulsory minimum requirements and district approach to boost action across all Member States.
- Question 5.6.1: In this section, companies consider the rise of the renewable electricity share should be implemented **as long as it ensures the access to this energy at affordable price for industry exposed to international competition**. In this section, special attention should also be given to renewable gases and to clean hydrogen, as well as increasing the production of heat and cold renewables for industry. Additional measures to increase renewable energy consumption in industry and buildings should specifically include **supporting and financing measures**.
- Question 5.6.2: **Energy efficiency** is a key tool especially in the building sectors. There is an important potential to be tapped in the industrial sector, **with the exception** of the sectors subject to international competition, where energy efficiency improvements are generally implemented very regularly as they are key for delivering competitive advantage. In this view, **it will be difficult to expect more than 1%-2%/year of energy efficiency improvements for those companies**.
- Question 5.8: Levers for additional GHG emission reductions for the EU industry can be triggered if a **coordinated and stronger ETS price signal, as well as carbon adjustment measures or equivalent international trade tools, are implemented**.

About AFEP

Since 1982, AFEP brings together large companies operating in France. The Association, based in Paris and Brussels, aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is AFEP's core priority. AFEP has around 113 members. More than 8 million people are employed by AFEP companies and their annual combined turnover amounts to €2,600 billion.

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