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Opinion of the European Economic and Social Committee

The Clean Transition Dialogues – stocktaking

A strong European industry for a sustainable Europe

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1. Conclusions and recommendations

1.1. The EESC is convinced that a new, much braver and more ambitious approach, together with a clear implementation framework, is needed to ensure that the European Green Deal becomes a success from a climate and socio-economic perspective. We need a New Competitiveness Deal to promote and protect EU industry and employment.

1.2. While fully supportive of the objectives of the European Green Deal, the EESC believes that aspects of the policy have had negative repercussions for EU employment and competitiveness, and have increased global emissions through carbon leakage.

1.3. This New Competitiveness Deal should include:

— much faster permitting times (including limits for the examination of environmental objections in courts);

— a more accurate approach to measuring progress towards our climate targets that takes into account the carbon footprint of imported goods, as opposed to only looking at production of emissions in Europe;

— stronger carbon leakage protection to preserve a level playing-field for European companies;

— a technology-neutral energy policy that produces greater long-term stability, delivers globally competitive prices, and recognises the need for investment in stable, low-carbon sources during the transition; this includes support schemes to overcome the remaining barriers to clean power purchase agreements, including tools to de-risk the shaping and firming of renewable electricity;

— urgent, major investment in distribution and transmission grids, as well as in ports and harbours, to facilitate offshore renewable developments;

— a more ambitious and common approach to financing investments under the Green Deal that mobilises all existing financing instruments at EU and national level, including much greater use of venture capital and private equity;

— more support for electrification;

— a significant reduction in bureaucracy and reporting requirements, in line with the Commission proposals;

— a dedicated financing tool to support the production of critical raw materials and net-zero technologies;

— a just transition framework that delivers large-scale reskilling and upskilling for workers;

— increased use of wood-based renewal products to reduce fossil-based products in energy, construction and other areas.

1.4. Moreover, the EESC believes that the Carbon Border Adjustment Mechanism (CBAM) should not replace free allocation unless viable solutions for exports and adequate anti-circumvention measures can be introduced.

1.5. Incentives should also be created to promote cleaner modes of transport in cities, including public transport, walking, cycling and clean vehicles.

2. **General comments**

2.1. The Communication on the Clean Transition Dialogues comes against the backdrop of a growing consensus that Europe is facing a serious and structural competitiveness problem linked to high energy and raw material prices, excessive reporting and bureaucracy, high compliance costs linked to the green transition, lengthy permitting procedures, insufficient infrastructure development, an endemic skills gap, and a lack of sufficient financing and internal demand.

2.2. The EESC fully supports the objective of the European Green Deal. At the same time, it is convinced that the EU needs a new competitiveness deal if it wishes to achieve the ambitious objectives of European Green Deal while also maintaining a vibrant economy, social cohesion and good-quality jobs for workers.

2.3. While the Communication on the Clean Transition Dialogues gives a good overview of the challenges lying ahead, it fails to acknowledge that much bolder action is required to get Europe's economy and climate ambitions back on track. Among other things, this means globally competitive energy prices, smarter regulation that stimulates investment in the single market, a significant reduction in excessive bureaucracy and reporting requirements while maintaining adequate protection and transparency for consumers, massive public and private investment in infrastructure, much shorter permitting times (including strengthening competent public authorities, setting limits and reviewing cost protection for the examination of environmental objections in courts), a Just Transition framework to ensure the necessary large-scale reskilling and upskilling of workers, and a more accurate approach to measuring progress towards our climate targets. The European Commission needs to prioritise based on urgency.

2.4. This means acknowledging that some core policies are counterproductive as they have led to a loss of EU production, which is replaced by imports that are much more carbon-intensive. This is bad for our climate as well as the EU's economy and security. Our indicator for assessing progress should factor in the carbon footprint of imported goods, as opposed to only measuring emissions occurring within Europe.

2.5. The EESC is concerned about recent developments in the energy market. Massive investment in renewable energy without flexibility solutions being available is resulting in a supply/demand mismatch and large curtailments of renewable electricity. For an increasing number of hours, electricity prices are either negative or very low, but the baseload price remains high due to there being many hours where there is a lack of generation compared to demand.

2.6. This situation creates disincentives for new investment in generation capacity and hinders our ability to invest in electrification. Given that dispatchable energy will be required for the foreseeable future, more investment in such energy sources is needed.

2.7. Given the importance of water in industrial and agricultural production, it is important to develop an EU strategy to increase water security, in line with the EESC's call for a Blue Deal.

2.8. Given that construction is the second largest industrial ecosystem in the EU and that buildings are responsible for 40 % of energy use, this sector offers enormous potential to contribute to the European Green Deal. More needs to be done to promote green public procurement practices, primary material reuse, and recycling.

3. **Specific comments**

3.1. ***Energy infrastructure***

3.1.1. An abundant and affordable supply of clean energy, especially electricity, is a fundamental requirement in order to achieve the EU Green Deal targets and preserve the competitiveness of European industry. Electricity consumption is expected to increase by 60 % between 2023 and 2030 ([1]).

3.1.2. Industrial retail prices of electricity in the EU are 2-3 times higher than in the US (2021-2023), while historically they were 1,5-2 times US prices. Gas prices are 3-6 times higher than those in the US, compared to 2-3 times historically, and energy prices are even lower in China ([2]).

3.1.3. The EESC proposes that, before a country closes down an existing energy source, a full impact assessment that includes social consequences should be undertaken by Member States, and that there be a requirement that a more sustainable source of energy be provided.

3.1.4. Progress in developing the enormous potential of offshore renewables, which is essential in order to meet EU targets, has been particularly slow. To make the necessary progress in this area, significant investment in ports, harbours and grid infrastructure is essential.

3.1.5. The fact that 40 % of distribution grids in the EU are more than 40 years old is a clear sign that urgent investment is needed in grid infrastructure. Networks will have to accommodate a more digitalised, decentralised and flexible system, with millions of rooftop solar panels, heat pumps and local energy communities sharing their resources, more offshore renewables coming online, more electric vehicles being charged, and growing hydrogen production needs. Cross-border transmission capacity is due to double by 2030 and the European Commission estimates that EUR 584 billion in investment is necessary ([3]).

3.1.6. The key areas identified in the EU action plan to accelerate efforts to address the challenges facing distribution grids are: 1) accelerating the implementation of existing projects of common interest and developing new projects; 2) enhancing long-term network planning; 3) introducing a supportive, future-proof regulatory framework; 4) making better use of existing grids and turning them into smart grids; 5) improving access to financing; 6) ensuring faster, more streamlined permitting processes; and 7) giving priority to reforming planning processes and considering a fast-tracked EU planning process for energy infrastructure with strict time limits on all objections, strengthening supply chains, removing planning obstacles and improving access to funding ([4]).

3.1.7. Financing the costs of energy infrastructure poses a major impediment to development. Private investment has not been fully mobilised. Less than 30 % of European firms' financing comes from tradable equity and debt, compared to nearly 70 % for US firms. Greater use and increased availability of venture capital, private equity and sovereign funds, combined with an increase in EU and state funding, are essential to financing a clean economy in the EU.

([1]) https://ec.europa.eu/commission/presscorner/detail/en/ip_23_6044.
([2]) EUR-Lex - 52024DC0163 - EN - EUR-Lex (europa.eu).
([3]) https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023DC0757.
([4]) https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023DC0757.

3.2. ***Steel and energy-intensive industries***

3.2.1. Energy-intensive industries are facing an existential crisis due to a combination of factors, including high energy and raw material prices, increasing compliance costs from EU climate legislation, unfair competition from third countries, and weak demand caused by the more general economic slowdown. This has led to large production curtailments (zinc is down 45 %, aluminium 50 %, and fertilisers 25-35 %) and workers have been laid off. Europe must focus on protecting and promoting industry and continue to be diverse and resilient, avoiding overdependencies on specific sectors (e.g. mass tourism in some Member States).

3.2.2. There is currently no business case for new investment in energy-intensive industries, which are necessary for the green transition in Europe. In fact, conditions will further deteriorate given that, in 2026, the next sub-phase of the emissions trading system (ETS) and the introduction of the CBAM, without a solution for exports or adequate anti-circumvention measures, will mean a huge increase in operating costs for energy-intensive companies and their dependent downstream manufacturing sectors (e.g. producers of vehicles, wind turbines and digital applications, including data centres). The same also goes for fertiliser manufacturing and food production. As a result, this investment is being made outside the EU and imports with a higher carbon intensity are growing, leading to negative impacts for the climate, employment and the EU's security.

3.2.3. To avoid this, we need pragmatic policies that guarantee globally competitive energy prices (acknowledging the need for stable energy sources) and much faster permitting. To reduce the electricity prices faced by European industry, Member States should introduce support schemes to overcome the remaining barriers to renewable power purchase agreements (as provided for in the Renewable Energy Directive and the Electricity Market Design), including tools to de-risk the shaping and firming of renewable electricity. The continuation of the indirect cost compensation scheme is also necessary, to partly offset the additional increase in electricity prices caused by the EU ETS.

3.2.4. As carbon pricing alone is not creating a business case for investment in industrial decarbonisation (as evidenced by the lack of investment), further financial support will be needed, providing targeted operating expenditure (OPEX) and capital expenditure (CAPEX) support, without undermining competition. Moreover, the CBAM should not be implemented without a viable solution for EU exports, and without carefully monitoring the large additional costs it will create for European businesses, farmers and society more generally. Delays in the availability of low-carbon hydrogen and other enablers of industrial decarbonisation must also be taken into account when assessing the rate at which EU industry is expected to decarbonise.

3.2.5. Urgent efforts are also needed to tackle global excess capacities and prevent cheap steel being dumped on the EU's open market. While the recent extension of the steel safeguards is most welcome, the increase in trade defence cases for the steel sector (over 50 % of all trade defence instrument cases) demonstrates that the issue is growing. The EESC urges the Commission to use all the measures in its trade defence toolbox to prevent dumping, unfair subsidies and circumvention affecting both steel and other energy-intensive industries.

3.3. ***Clean tech***

3.3.1. The transition to a net-zero economy by 2050 requires huge investment in clean technologies. Global production of electric vehicles is expected to increase by a factor of 15 and deployment of renewables will almost quadruple. Given that Europe has an import dependency of 90 % or even higher (mainly from China) for many components in the clean tech value chain, the Net-Zero Industry Act aims to diversify supply sources and boost domestic production of clean tech by simplifying permitting. Although a step in the right direction, this law will have a limited impact on the ground, given that environmental permitting was deliberately excluded from the permitting deadlines provided for in the act. Moreover, given that tacit approval was not accepted in the final compromise, the reduced permitting timeframes are in reality purely indicative.

3.3.2. The strategy is also undermined by the huge competitiveness problem Europe's energy-intensive industries are facing. If deindustrialisation is not halted, Europe risks becoming ever more dependent on unreliable third parties for the raw materials needed to manufacture clean tech. Furthermore, by significantly increasing the cost of raw materials in the EU, the ETS, in combination with the CBAM, will make it much more expensive, and therefore more difficult, to produce clean tech in Europe, since electric vehicles, renewable energy units, components for electricity grids, hydrogen electrolysers, heat pumps and batteries all rely on steel, aluminium and other raw materials as input materials. As such, a dedicated fund is needed to support the clean tech sector.

3.4. ***Critical raw materials***

3.4.1. Decarbonising our economy requires a large increase in the volume of critical raw materials that need to be mined, processed and recycled, to produce low-emission technologies. For example, reaching net-zero by 2050 requires a 2 109 % increase in lithium consumption, 168 % more nickel, 51 % more copper, and 43 % more aluminium ([5]). The EU's access to raw materials is threatened by an increasing lack of diversification across our supply chains. It depends on a single country for over 90 % of its supply of various raw materials, including rare earths, gallium and magnesium ([6]). This increases the risk of supply chain disruptions.

3.4.2. The EU's Critical Raw Materials Act (CRMA) introduced targets to diversify our supply sources, along with targets for EU-based extraction, processing and recycling of strategic raw materials. It also includes provisions to expedite permitting.

3.4.3. However, meeting the CRMA targets will require further action. The EU lacks dedicated financing instruments for critical raw material projects, and such a fund should be established as a priority. More can also be done to facilitate private investment in critical raw materials, which is currently restricted by the EU's sustainable finance legislation.

3.4.4. Furthermore, recycling and (especially) processing raw materials tends to be energy-intensive. Companies conducting these activities are facing the same challenges as the EU's broader energy-intensive industry. To reach the CRMA targets, we must therefore ensure a globally competitive supply of energy to European industry, along with an assertive trade policy and a more favourable regulatory framework focused on minimising costs instead of increasing them.

3.5. ***Hydrogen***

3.5.1. Hydrogen was one of the central pillars of the EU's Green Deal. Ambitious targets were announced, and were then further increased in the REPowerEU Communication, which provides for 10 million tonnes of annual domestic renewable hydrogen production and another 10 million tonnes of annual imports by 2030. However, low-carbon (including renewable) hydrogen projects have struggled to materialise. The International Energy Agency reported that just 4 % of announced projects have managed to reach a final investment decision ([7]). Key reasons for this include higher-than-expected costs and the inability of consumers to cover the green premium.

3.5.2. To increase the deployment of low-carbon hydrogen, more attention should be paid to the demand side. Given the large cost difference between low-carbon hydrogen and more polluting alternatives, carbon pricing alone will not create a business case for investment in low-carbon hydrogen, especially when combined with the lack of equivalent carbon pricing in other countries and significant uncertainties about the effectiveness of the CBAM. Instead, more support will be required for the first projects to come online, in order to ensure the real-world deployment of hydrogen technologies, which will help to build scale and reduce costs. The Hydrogen Bank has proven to be a successful model for supporting hydrogen projects, with its innovative design helping to connect supply with demand. However, more funding is required to ensure the availability and affordability of low-carbon hydrogen.

3.6. ***Forestry-based bioeconomy***

3.6.1. Approximately 45 % of the EU's territory is covered by forests and other wooded areas, totalling around 180 million hectares, providing Europe with a large natural resource as well as a major carbon sink ([8]). The forestry-based bioeconomy provides a major opportunity for the increased use of wood-based renewal products in order to reduce fossil-based materials in energy, construction, chemicals, packaging and textiles.

([5]) metals-for-clean-energy.pdf (eurometaux.eu).
([6]) European Critical Raw Materials Act (europa.eu).
([7]) Executive summary – Global Hydrogen Review 2023 – Analysis - IEA.
([8]) https://www.eea.europa.eu/en/topics/in-depth/forests-and-forestry.

3.6.2. The EESC proposes more focused and enhanced research and innovation, public procurement and incentives that prioritise bio-based products and an increase in the use of wood in buildings, rewarding and incentivising forestry for carbon capture, tourism and leisure as well as other ecosystem services. Specific solutions are required to fast track planning for both forestry plantations and clear felling.

3.7. ***Clean mobility and cities***

3.7.1. Transitioning to clean mobility in cities, involving the expansion and electrification of public transportation, and investment in electric buses, trams, trains, cars and taxis, can reduce greenhouse gas emissions, air pollution and traffic congestion. This is dependent on access to clean, affordable energy and support structures, and can be facilitated by positive financing incentives, such as the investment-led Clean Air Plan in Manchester ([9]), as opposed to measures driven by increased taxation on existing energy sources since they are deeply regressive in nature and penalise those on low incomes.

3.7.2. Enabling more people to walk and cycle safely can play a greater role in achieving climate goals, as well as in improving public health, strengthening the economy and supporting a fairer, more equitable society. Typically, around 60 % of urban trips are shorter than 5 km, and a quarter are less than 1 km; however, walking and cycling currently make up just a third of these. A good example of a city implementing a strategic plan on this is Amsterdam ([10]). More walking and cycling are not only positive for the climate but also improve public health by reducing diseases related to sedentary lifestyles and air pollution.

3.7.3. In 2023, more than 6,7 million flights departed from European airports, emitting a total of 164,85 Mt of CO_2. This is equivalent to the emissions of 80 million petrol cars in one year ([11]). While maritime transport plays an essential role in the EU economy and is one of the most energy-efficient modes of transport, it is also a large and growing source of greenhouse gas emissions. In 2018, global shipping emissions represented 1 076 million tonnes of CO_2, and were responsible for around 2,9 % of global emissions caused by human activities ([12]).

The maritime and aviation sectors will need considerable amounts of renewable and low-carbon fuels, and developing production of those fuels will diversify our energy supply while improving industrial competitiveness. Both sectors will also need to adopt new tech for low-emission engines. Moving container transport from lorries to electric trains where possible and transitioning to using tier 6 engines in lorries will help reduce emissions. Significant investment is required in the train infrastructure network for passengers and goods.

Brussels, 23 October 2024.

The President
of the European Economic and Social Committee
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([9]) https://cleanairgm.com/clean-air-plan/.
([10]) https://www.amsterdam.nl/en/policy/sustainability/clean-air/.
([11]) https://www.transportenvironment.org/uploads/files/Europe_Aviation_2023_file.pdf.
([12]) https://climate.ec.europa.eu/eu-action/transport/reducing-emissions-shipping-sector_en.