

POSITION PAPER OF FOUNDATION 2°

For a climate neutral economy
'made in Europe':

Working together to re-launch Europe, now!





Sabine Nallinger,
Managing Director of
Foundation 2°

Foreword

The Covid-19 pandemic and its economic and social consequences are shaping our lives and the political debate this year. However, the impression that climate policy has been pushed off the political agenda is deceptive. In the coming weeks and months, important climate policy decisions will be made.

Currently, the most important task is to translate the growing importance of climate policy into political action that will pave the way to achieving the climate targets, while at the same time recognising the needs of business and society. The design and further concretisation of the European Green Deal is central to this. We as Foundation 2° want to contribute to this debate with a progressive and constructive business perspective. Large parts of the business community would like to use the upswing phase following the Corona crisis to make their contribution to a powerful EU Green Deal. The prerequisite for this, however, is that political framework conditions are created and implemented very quickly that enable companies to initiate the necessary transformation processes and remain internationally competitive.

In our position paper, we present concrete proposals, which address both the design of important cross-sectoral instruments, such as CO₂ pricing, as well as prospective areas of climate policy and key technologies, such as the expansion of renewable energies, the establishment of a European hydrogen economy, the increase of energy efficiency in the building sector and the realization of a European circular economy.

I hope I have aroused your interest in our position paper.

Yours,

A handwritten signature in black ink that reads "Sabine Nallinger". The signature is fluid and cursive, with a long horizontal stroke at the end.

Sabine Nallinger
Managing Director of Foundation 2°

The following companies were involved in the dialogue process for the position paper:

- AIDA Cruises
- Allianz SE
- Bau-Fritz GmbH & Co. KG
- Bausparkasse Schwäbisch-Hall AG
- DEUTSCHE ROCKWOOL GmbH & Co. KG
- Deutsche Telekom AG
- Deutsche Wohnen SE
- DRÄXLMAIER Group
- EnBW Energie Baden-Württemberg AG
- ENTEGA AG Darmstadt
- EOS GmbH Electro Optical Systems
- Gegenbauer Holding SE & Co. KG
- GLS Bank
- GOLDBECK GmbH
- HeidelbergCement AG
- INTERSEROH Dienstleistungs GmbH
- ista International GmbH
- OTTO FUCHS KG
- Otto Group
- Papier- und Kartonfabrik Varel GmbH & Co. KG
- Salzgitter AG
- Schneider Electric GmbH
- Schüco International KG
- Siemens Energy AG
- Stiebel Eltron GmbH & Co. KG
- SWM – Stadtwerke München
- Tchibo GmbH
- thyssenkrupp Steel Europe AG
- Union Investment
- VAUDE Sport GmbH & Co. KG
- VTG AG
- Wacker Chemie AG

The companies involved contributed their perspectives and know-how to the preceding discussions. Foundation 2° derived claims from this process and has acted as the sole author of this position paper.

The EU Green Deal. Now is the time to strengthen the instruments for implementation

The European Union (EU) is facing a historic test in the face of the COVID-19 pandemic. It must soften the blow of the pandemic's impacts on livelihoods and society and lead the European economy out of a crisis of previously unmatched proportions. At the same time, it is imperative to lay the foundations for a climate-neutral Europe while building a society more resistant to crises.

Commission President Ursula von der Leyen has demonstrated how it is possible to successfully connect economic recovery with ambitious climate action. The EU Green Deal that she has presented is intended to act, in light of the economic impacts of the COVID-19 pandemic, as an innovation and growth strategy for leading Europe out of the economic crisis and achieving EU climate neutrality by 2050.

The strategy utilises the broad societal, scientific, and business consensus – which large shares of the private sector across all industries are already applying as the basis for making their business models climate-friendly – as a good starting point for further investment in secure jobs, domestic value creation, and resource conservation.

To successfully implement the EU Green Deal and the transformation of the European economy it would bring, however, it is of central importance to speedily equip it with a suitable governance structure as well as targeted, harmonised, medium and long-term implementation instruments and to mobilise sufficient public and private financial resources.

The resolutions of the European Council from 17/18 July 2020 on the provision of comprehensive aid funds and on the EU budget were an important first step in this pursuit. They send a clear signal to society and business alike: Europe stands united and will master this crisis together. A truly effective EU Green Deal, however, requires even more vigorous prioritisation of climate-friendly investments.

This makes it all the more important for the *German government to now use its EU council presidency, in collaboration with the subsequent EU council presidency holders Portugal and Slovenia*, to take appropriate steps to implement the EU Green Deal with ambitious climate and economic policies. The shared goal must be to direct the *instruments for implementation and financing* in such a way now, that the goal of climate neutrality is achieved by 2050.

To do so, European governments must act swiftly to develop the next concrete steps towards implementing the EU Green Deal with the European Parliament and national parliaments and in close cooperation with representatives of the business community. European and national implementation measures must add up to a consistent whole.

The next steps and first concrete investments in the next nearly two years will be decisive in the success or failure of the economic recovery and the necessary

transition to an internationally competitive, climate-neutral economy ‘made in Europe’.

For the German and subsequent EU council presidencies, this means:

Crafting a strong EU climate law and the necessary framework to achieve the climate goal

- The *EU climate law prepared by the EU Commission should be passed before the end of the German EU council presidency* with the legally binding goal of climate neutrality by 2050 and in harmony with the goals of the Paris Agreement. As the heart of the EU Green Deal, the EU climate law must provide European businesses with a long-term perspective for climate-friendly investment and serve as a reliable framework to make possible the continued contribution of Europe to the Paris Agreement. It is essential that, in addition to targets, frameworks are also created that put businesses in a position to launch the necessary processes of transformation, to remain internationally competitive, and to become global market leaders in low-carbon manufacturing technologies and products.
- At the meeting of the European Council on July 17/18, the heads of state and government committed to increasing the *European climate goal for 2030 and the European contribution to the Paris Agreement (NDC)* before the end of the year. The president of the EU Commission, Ursula von der Leyen, proposed in September 2020 an increase in the target to at least 55 percent reduction relative to 1990 based on an impact assessment. We recognise this policy ambition as expedient from a European perspective on climate policy and support it, *provided that* the condition is met that the increasing climate goal is linked directly or in the very short term (no later than in the next three years) to the adoption and implementation of the necessary policy instruments. On the basis of a decisive impact assessment of the new climate goal, instruments need to be derived and implemented that will reliably enable our economy and society to achieve this climate goal while taking into account economic efficiency, international competitiveness, and social balance.
- We would like to use the recovery phase following the global crisis set off by the Corona pandemic to make our contribution to the fulfilment of the Paris climate targets and for an ambitious EU Green Deal as a powerful European innovation and growth strategy. Together, we seek to seize the *opportunities offered by a climate-neutral economy ‘made in Europe’*. The increase in climate policy ambition, however, makes it all the more necessary to effectively support the economy on this path and to respond appropriately to the extraordinary challenges of our time.
- It is especially vital to use the EU Green Deal in a constructive manner to further strengthen the economic efficiency of corporate climate action via incentives to transition to low-carbon technologies, measures for internationally competitive energy prices and security of supply, as well as to further expand already-initiated and future investments in low-carbon technologies. It is necessary to guarantee a *harmonised mix of measures*, ensuring the maintenance of international competitiveness between the individual sectors and society.

- The progress in implementation as well as the economic and social impacts of the climate policy measure must be regularly assessed via a *monitoring process* to ensure a continuous steering effect as well as economically and socially balanced development. Where necessary, the European and national instruments for reaching the climate goals should be adjusted in the course of the assessment.

Further develop CO₂ pricing as the leading climate policy instrument and create conditions for the market launch of low-carbon products

- *CO₂ pricing as the leading climate policy instrument* must be systematically and methodically further developed beyond the sectors covered so far to provide, as an elementary climate policy component, positive incentives and impulses for climate-friendly innovation and to create lead markets for low-carbon products. Its steering effect should be aligned with the goal of achieving climate neutrality by 2050.
- Therefore, the German government should, in the course of its EU council presidency, accord high priority to advancing a socially sustainable *CO₂ pricing in the buildings and transport sectors* that is suited to climate policy goals in addition to the existing EU emissions trading system (ETS), bringing the policy as close as possible to being ready for decision. The resulting price path should be in line with the climate goal and ensure the greatest possible planning security to induce investments. Negative effects on competitiveness for sectors already covered by the ETS must be offset. Furthermore, CO₂ costs of end products should be made visible (e.g. through a labeling system) to increase consumer acceptance and awareness.
- To achieve a sufficient steering effect in the individual sectors, it is important to embed the CO₂ pricing scheme in an *overall climate policy concept* that advances the necessary innovations in the different sectors.
- The *revision of the EU emissions trading system (ETS)* currently planned for mid-2021 *should be quickly put into more concrete terms* so as to further develop the instrument for the energy sector and for portions of the industrial sector, as this is of central importance to the planning and investment security of businesses in these sectors. The revision of the ETS must ensure a suitable steering effect for the instrument in terms of EU climate goals.
- Accompanying, globally competitive energy and production costs must be guaranteed for the affected sectors. *Efforts by businesses that have already begun their transformation* processes should be recognised and supported. The existing compromise for energy-intensive, internationally exposed sectors between ambitious climate action, on the one hand, and protection from carbon leakage, on the other, should be maintained in line with the reliability and planning capability of political action. This includes that the amount of freely allocated CO₂ certificates and the CO₂ electricity price compensation for these industries will not be further tightened until 2030. Effective and efficient protection against carbon leakage with a range of measures that does justice to the specific characteristics of different sectors is of paramount importance for the international competitiveness of the European economy. The introduction of a price floor within the ETS proposed by the German

government, as well as a reform of the market stability reserve, should be moderately further developed in accordance with these demands.

- A mix of measures consisting of incentives and regulations must be used to help accelerate the *creation of lead markets for products* from low-carbon manufactured, but currently more expensive products in pivotal value chains (especially steel, cement, non-ferrous metals like aluminium). The introduction of supportive, project-related instruments, like Carbon Contracts for Difference (CCfD) as proposed by the German government, should be promoted in this context in order to compensate for the temporary cost disadvantage of climate-friendly production methods compared to conventional production methods.
- In addition, an *appropriate revision and flexibilisation of the European state aid framework* (e.g. for investments in renewable energy, for the decarbonisation of industry and the infrastructure it requires, for building renovations, and for the construction of traffic infrastructure for zero-carbon mobility) should be promoted to enable targeted state subsidies for climate action. It should be a guiding policy principle that businesses that align their business models and production processes with the goal of climate neutrality should not encounter any disadvantages vis-à-vis their international competitors. Rather, instruments should be strengthened to enable EU member states to actively and flexibly support climate neutrality ‘made in Europe’.

Strengthen the framework for investment in climate action and ensure that financing commitments are met

- The investment plan for the EU Green Deal (IPEGD) and the envisaged climate quota of *30 percent* for the next EU budget (2021-2027) are important building blocks for strengthening corporate climate action in Europa. In order to design a balanced and predictable transition to a climate-neutral economy, however, *binding adherence to this quota* in all categories and policy areas of the EU budget must be transparently monitored by the European Court of Auditors and politically ensured by the European Council.
- At the same time, it is necessary to significantly *strengthen reliable investment frameworks* for corporate climate action and in low-carbon technologies and products. The investment plan for the EU Green Deal (IPEGD), and especially the climate quota within the draft EU budget proposal, will not be sufficient by far to successfully use the EU Green Deal as an instrument for transitioning to a climate-neutral economy ‘made in Europe’ and thus to a strengthening of European competitiveness.
- The goal must be to create the framework conditions that clearly align all future investment with the goal of achieving climate neutrality by 2050. To do so, the *EU Taxonomy for classifying sustainable investments should be rapidly expanded and optimised for practical use* in close consultation with the business community. This should take into account both the status quo and the extent of the efforts made toward corporate transformation and climate action measures. Furthermore, the Taxonomy should include interim solutions, so long as these do not jeopardise the achievement of the 2050 climate goals. Clear milestones must therefore be defined quickly, and the

new ‘Platform on Sustainable Finance’ equipped with a sufficiently robust mandate with the goal of enabling a coordinated implementation of the requirements of the Taxonomy with the measures within the framework of the EU Action Plan for Financing Sustainable Growth. This should be done with an integrative approach that supports sectors with major transformation challenges.

- *Public procurement* and procurement along the entire value chain, both at national and European level, should give greater recognition to the objective of the Green Deal by adapting public procurement criteria in a way that they promote climate-friendly products and their use. Sustainable lead markets can only be created through growing demand for climate-friendly products.

Ensure implementation of the recovery and resilience plans compatible with Paris Agreement

- The use of the economic stimulus packages and measures for achieving the EU climate goals must also be brought together in a consistent mix of measures at the level of the EU member states. The *recovery and resilience plans* (2021-2023) of the individual EU member states must be harmonised with the national climate and energy plans and aligned with the goal of achieving climate neutrality by 2050. To this end, the national plans must also take up this year’s planned increase in the EU climate goal for 2030 and account for the shares of the individual sectors in overall carbon emissions when prioritising measures and using the funds. Negative effects on the internal market need to be avoided.
- In addition, continuous assessment and reporting on the implementation and potential adaptation of all plans and instruments will be necessary. To this end, it is necessary to obtain more clarity on the timeline, contents, and further process for *designing and implementing the national recovery and resilience plans*. The German government should work to ensure that the necessity of swift climate policy progress is accounted for in the assessment of the plans under state aid law, to be able to provide targeted support for climate policy measures. The characteristic “savings potential in line with climate targets” should also be the guiding principle here in order to be able to provide targeted support for climate policy measures.

Promote and provide targeted support for prospective areas of climate policy and key technologies

- Implementing the EU Green Deal as a strategy for economic recovery and modernisation on the path to an internationally competitive, climate-neutral economy ‘made in Europe’ can only succeed if *prospective areas of climate policy and key technologies are systematically and strategically promoted and supported*. This requires a spirit of innovation, testing grounds, and lead markets. Digitisation plays an important role for the entire economy in enabling the transformation. Digital infrastructure and digital solutions based on it are drivers of innovation and unlock significant efficiency potentials. A suitable design of the investment plan for the EU Green Deal (IPEGD) and the direction-setting decisions of the coming nearly two years will be decisive.

Our demands for selected, strategically meaningful prospective areas of climate policy are:

- *Large amounts of electricity and heat from renewable sources* – reliable and at internationally competitive prices – are an absolutely indispensable prerequisite for the transformation of the economy to climate neutrality. The use of electricity and heat from renewable sources should therefore be encouraged and a multiple fiscal burden avoided. Due to the sharply rising demand, their expansion must be stepped up significantly throughout Europe. The expansion of renewable energy sources must therefore be the focus of negotiations on the *Smart Sector Integration Strategy*. In order to meet foreseeable demand that cannot be met from European sources, a complementary European strategy for the import of electricity or hydrogen from renewable sources should be developed, aiming at bundling demand and sharing risks.

Of particular importance is a *coordinated, European expansion of wind power generation capacities*, both onshore and offshore. As part of the EU Offshore Renewable Energy Strategy, goals and milestones for a long-term expansion pathway for offshore wind should be agreed, as should guidelines for the designation of corresponding maritime areas to prevent competition for use (e.g. with shipping or fisheries). Beyond that, the revision of the energy infrastructure regulation (TEN-E Regulation) should be aligned with the goal of making the European power grid fit for an energy system largely fed by renewable sources that distributes renewable energy efficiently between the member states. This requires, most of all, an expansion and modernization of the high-voltage network. In this way, the expansion of renewable energy can become a European future project.

- The German and subsequent council presidencies should give high priority to advancing the *ramp up of a European hydrogen economy* in collaboration with international partners – especially with the aim of making it possible for energy-intensive industries (steel, non-ferrous metals, chemicals, paper, glass, cement) to transition to climate neutrality. The utilisation of hydrogen produced in a climate-friendly way as a climate action strategy is of the utmost importance to these industries. It must therefore be ensured that sufficient hydrogen is available for these economic sectors. The German government should, as announced in its national hydrogen strategy, further pursue the creation of a new *Important Project of Common European Interest (IPCEI)* for the field of hydrogen technologies and systems (including generation, distribution, application and use of hydrogen) together with the EU Commission, bringing the plans as close as possible to being ready for decision. Activities for the establishment of a hydrogen-carbon circular economy (CCU/PtX) and development of the required infrastructure should also be a part of the project. The individual projects and financial contributions for the IPCEI should be identified before the end of 2020 and brought together under the umbrella of the IPCEI. It must be ensured that German companies are not excluded from an IPCEI focused on hydrogen because the required expression of interest procedure in Germany was not opened before the end of the application deadline for the Innovation Fund. Furthermore, European and national funding pools should complement each other in

a sensible way and the respective funding guidelines should be aligned accordingly. The German government should provide budgetary resources for its contribution to the IPCEI before year’s end. The IPCEI should take into consideration both the construction of generating capacity for hydrogen and the necessary infrastructure. With the goal of achieving climate neutrality by 2050, efforts must be made to meet European hydrogen demand by 2050 in a completely climate neutral way and to aim for the highest possible share of renewable energy sources at an early stage.

- Investments in *increasing energy efficiency in the buildings sector*, especially as part of the EU Commission’s planned ‘Renovation Wave’, create effective economic stimuli in the short term and make a large contribution to achieving the European climate goals. The goal must be at least a doubling of the renovation rate. The ‘*Renovation Wave*’ should focus on the renovation of particularly energy inefficient buildings. For this, binding minimum efficiency standards should be ensured in all EU member states. They should be complemented with expanded funding programmes and regulatory measures, which are compatible with the principle of technology openness, above all to exploit the savings potential of particularly inefficient buildings in a planned and timely manner. The long-term renovation strategies of the EU member states must contain concrete roadmaps for the achievement of renovation targets. The member states should set a good example with the *renovation of public buildings* and provide a high level of long-term support to these efforts. Scalable solutions such as serial renovations or the possibility of project bundling should also receive consideration when designing funding programmes. The renovation of non-residential buildings should be included in the ‘Renovation Wave’ with the same priority as residential buildings. It is especially possible to bring together the protection of climate and health in the renovation of public buildings such as schools or hospitals, e.g. by installing sustainable ventilation systems. The details on access to funding for energy-related renovations by owners, businesses, and public institutions should be more clearly defined and simplified. Moreover, the supply of heat from renewable energy sources should be promoted both in the area of decentralised heating systems as well as urban local and district heating networks (e.g. based on renewable geothermal energy) through incentives and a conducive regulatory framework. In principle, the funding must aim at a socially acceptable and affordable implementation of the climate transition in the buildings sector for owners and tenants, with a focus on the technology-neutral upgrade of existing buildings. Standards for new buildings must be successively adjusted in line with the pursuit of climate neutrality by 2050.
- The *new Circular Economy Action Plan* and, in particular, the concrete instruments listed in its appendix must be quickly and ambitiously implemented to more fully utilise the climate policy potentials of the circular economy. This requires as its superordinate, all-encompassing goal a reduction in resource consumption, with which the individual instruments from all sectors, from the buildings sector to sustainable mobility and along the entire supply and value chains, are aligned. A roadmap and monitoring process for a successive and as climate-effective as pos-

sible *increase in recyclability and recycled materials-share* for all suited products and packaging should be drawn up in close consultation with the affected businesses or sectors. As announced in the Action Plan, binding criteria and goals for environmentally friendly and resource-saving public procurements should be determined quickly and compliance continually assessed. Furthermore, attractive financial incentives should be created for the development and scaling of innovative circular business models, for example leasing or sharing models for resource-intensive products. *Standards* are necessary to reintroduce valuable secondary materials into the business cycle in Europe in line with the highest sustainability criteria. It is also necessary to resolve regulatory conflicts of interest and increase societal acceptance for industrial recycling (including the allocation of permits) in order to strengthen the circular economy. In this context, barriers for trade and access to secondary raw materials need to be eliminated.

- Investments in the *mobility transition* towards climate neutrality - i.e. the avoidance, improvement and shifting of traffic flows in the direction of ecomobility as well as the use of vehicles and modes of transport with zero-carbon drive trains and fuels in passenger and freight transport - are necessary to achieve the climate targets and strengthen the European industry and construction sector. Modes of transport (such as rail transport) and public transport that are already climate friendly today should play a central role here. The German government and the subsequent EU Council presidencies must work towards making the realisation of such a mobility transition a central goal of the announced *Smart Mobility Strategy* of the EU Commission and of the 2021 revision of the EU's Alternative Fuels Infrastructure Directive (AFID). The revision of AFID should strongly promote the transition towards electric mobility and create transparent, practicable, and *uniform frameworks for the expansion of charging stations* in the EU member states. This is the prerequisite for the transition to electric mobility creating new business models and thus economic opportunities. Alternative fuels (e.g. e-fuels, synthetic fuels, and 2nd generation bio-fuels) are important options for reducing carbon emissions in the shipping and aviation, heavy goods traffic and rail transport. Their development and scaling should be driven forward as a priority for these special markets, which act as complements to electric mobility. It is necessary to define and adhere to stringent sustainability criteria for the usage and application of alternative fuels in order to avoid usage competition and other undesired negative environmental effects (e.g. when using biomass). This must be kept in mind during the revision of the EU Renewable Energy Directive planned for 2021 and the revision of the fleet regulation.

Imprint

Developed by:
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für Klimaschutz

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Released:
October 2020

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