EUROCHAMBRES key recommendations to successfully implement the European Green Deal

EUROCHAMBRES supports the current climate and environment agenda. Given that the EU already has the strictest climate target and legislation in place globally, however, only the concrete implementation of these targets will show whether the Green Deal indeed turns out to be Europe's future economic growth programme. The aim must be to establish a regulatory framework that allows businesses of all sectors and sizes to innovate and create products and services that contribute to the objective of a sustainable economy, while effectively protecting their competitiveness. Increased climate and environmental protection can lead to more business opportunities for companies if the focus moves away from merely tightening regulation and standards. At the same time we must be aware that unilateral decisions and measures will inevitably have an impact on the international competitiveness of the European economy.

A balanced economic growth, a competitive social market economy as well as employment and social progress, along with a high level of protection and improvement of the quality of the environment all rank among the core objectives of the Treaty on European Union. EU businesses have achieved remarkable progress during the last decades, decoupling net greenhouse gas emissions from GDP growth in the last 30 years[1]. Intensified climate change mitigation efforts are thus in the interest of businesses themselves. With a view to the top 3 challenges identified in the EUROCHAMBRES Economic Survey 2021, namely labour costs, financing conditions and the repayment of debt, all of which aggravated due to the current economic crisis, new regulation driving up compliance costs somewhere else is not.

In order to achieve the transformation to an environmentally and socially sustainable and globally competitive economy, EUROCHAMBRES elaborated the following 10 key principles for the implementation of the European Green Deal:

1. **Implement and enforce existing legislation and make sure that new legislation is coherent and proportionate**. Realistic targets drawn up in close coordination with all stakeholders including businesses and broken down to concrete measures and performance indicators will ensure planning security and provide enough flexibility.
2. **Maintain and intensify action at global level.** Multilateralism has to remain at the core of the European climate and environment agenda, in particular in terms of pushing for global carbon-pricing and WTO-reform. G20 is an essential forum in this regard.
3. **Maintain and strengthen global competitiveness of industries.** Only a viable business case will convince others to commit to equally ambitious regulation. Accordingly, strong and effective carbon leakage protection is vital and crucial for achieving the EU's goals.
4. **Balance regulation and economic incentives.** A balance between entrepreneurial freedom and stricter regulation has to be struck in order to incentivise innovation, minimise additional administrative burden and avoid potential market distortions.

[1] -25% GHG emissions in 1990-2019, 62% GDP growth in the same time period; source: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_1598, accessed on 24/11/2020

ASSOCIATION OF EUROPEAN CHAMBERS OF COMMERCE AND INDUSTRY ASSOCIATION
DES CHAMBRES DE COMMERCE ET D'INDUSTRIE EUROPEENNES
Chamber House, Avenue des Arts, 19 A/D B - 1000 Brussels / Bruxelles • Belgium / Belgique
Tel. +32 2 282 08 50 • eurochambres@eurochambres.eu • www.eurochambres.eu
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5. **Integrate a push for renewable energies and infrastructure planning.** Electrification and the increased use of low carbon fuels must go hand in hand with exceptional infrastructure that is both resilient and flexible and can meet required future demands.
6. **Create an enabling framework for sustainable finance.** EU initiatives in this area should make it easier for companies to access finance for investments in climate protection and the energy transition, not make it harder for the rest.
7. **Exploit the potential of digitalisation to promote the green transition.** Both the digital and green transitions can be mutually supportive if the adequate infrastructure, data security, accessibility for all market participants and support to businesses is ensured.
8. **Incentivise and create markets for innovative technologies.** Improved framework conditions and targeted incentives that respect the principle of technology neutrality will allow for increased market penetration of both mature and breakthrough technologies.
9. **Enable a just transition that leaves no region behind.** The EU has to support efforts for structural change with a focus on job creation in those regions that will be most affected by the transition to a sustainable economy.
10. **Enable consumers and enhance public participation where appropriate and necessary.** Consumers have considerable market power to award those companies that they deem most sustainable. Stakeholders' participation must be clearly defined and well balanced.

1. Implement and enforce existing legislation and make sure that new legislation is coherent, proportionate and its impacts thoroughly assessed

In order for the economy to contribute to and benefit from the transition efforts, it is of the utmost importance to ensure planning security for businesses. From our point of view it is therefore crucial to fully and rigidly transpose and implement the existing legislation. This will ensure medium and long term planning and investment security for businesses as well as public administration. Moreover, it would establish a baseline against which to plan future measures, especially with regards to energy markets, energy efficiency, renewable energy and the Emissions Trading System, which has been recently revised at European level but has not yet been fully implemented at national level. Discussions should focus on the framework conditions needed to achieve the ambitious 2030 EU targets and how the measures can be broken down for the different levels of action including businesses. Measures need to be based on proper and in-depth economic and ecologic impact assessment, including at the member state level and taking into account the global context and the economic crisis resulting from Covid-19. EUROCHAMBRES underlines its support for indicative sectoral roadmaps developed in close coordination with the different industries and the important role that the European regions play in the achievement of the climate objectives. Measurable key performance indicators with realistic timeframes would help implementation and adaptation by providing a framework that is flexible enough to react to unforeseen developments and shocks.

It must be ensured that future legislative files are elaborated in a coherent framework, taking account of the numerous interdependencies of different dossiers and potential target conflicts. The agendas of climate, competitiveness and security of supply in terms of energy, raw materials and skilled labour have to be integrated. This also includes the need for a rigorous assessment of the proportionality of certain policies and measures with regards to SMEs and how they can be implemented with the least possible additional administrative and direct cost burden for businesses.

2. Maintain and intensify action at global level

An ambitious domestic climate policy can indeed set a global example. The announcements of China, Japan, South Korea, South Africa and Chile to reach carbon neutrality by 2050 and 2060 are encouraging signals. But more importantly it remains to be seen how these high-level political decisions will be implemented on the ground. The European Union already has not only the most ambitious overall target but also the most stringent implementation legislation in place. Therefore, multilateral cooperation and climate diplomacy must remain at the core of European climate and environment policy.

Chambers urge the Commission to intensify its efforts for global carbon-pricing, especially with regards to Art. 6 of the Paris Agreement, and facilitating trade in climate and environmental protection technologies, for example through trade policy initiatives such as the WTO Environmental Goods Agreement. The G20 is a crucial arena where European climate diplomacy can be promoted globally. EUROCHAMBRES equally underline the necessity for a reliable mechanism for the EU, its member states and companies to invest in sustainable projects in third countries while counting the emission reductions against their own target.

3. Maintain and strengthen global competitiveness of industries

Europe will only be able to convince other regions to follow suit if we provide a viable business case for climate protection including measures that maintain and strengthen the global competitiveness of the European economy. It must be clear that as long as there are no comparatively ambitious goals and legally binding climate legislation in other world regions, both direct and indirect carbon leakage provisions have to be maintained and if necessary expanded for sectors exposed to international competition. The impacts of increased targets on different sectors thus need to be acutely assessed.

If, after careful analysis of all equivalent alternative solutions, a Carbon Border Adjustment is found to be the optimal solution it must fulfil a number of conditions. It must be complementary to existing carbon leakage instruments, compatible with WTO rules and not unduly restrict trade in times of global protectionist tensions. Moreover, it should be introduced for a number of selected sectors to begin with, based on sectoral impact assessments considering possible legal, trade, economic and environment policy effects, including the potential need for export rebates. It should also include the option to gradually phase-in additional sectors. In any case, the competitiveness of industries exporting to third countries must remain a key priority of any reform of the carbon leakage protection instruments.

4. Balance regulation and economic incentives

Successful climate and environment policy needs a carefully balanced mix of regulatory instruments and economic incentives. Incentivising innovation, minimising additional administrative burden and avoiding potential distortion of the single market must remain at the core of these measures.

In addition, the needs of SMEs must be duly taken into account. The EUROCHAMBRES Economic Survey 2021 shows that companies are most concerned about costs (more specifically the top 3 challenges are labour costs, debt repayment and financing conditions). This is especially important in relation to planned regulation that would significantly increase their costs by additional reporting and other administrative requirements, such as non-financial information, sustainable corporate governance and due diligence provisions. It is also crucial with regards to SMEs' participation in public tenders, which may be further restricted by mandatory Green Public Procurement criteria, and ecodesign criteria that increase their design costs but at the same time risk to restrict their innovative capacity. It is important to strike a balance between entrepreneurial freedom and such measures. Prior to the introduction of any measure its necessity to achieve the desired result needs to be thoroughly assessed.

5. Integrate a push for renewable energies and infrastructure planning

Measures to stimulate the demand for renewable energies are positive. Yet, first of all, a complete electrification of industrial processes remains unrealistic and in some cases undesirable. The costs of the necessary market-driven investments in low carbon gases both on the infrastructure and supply side, as well as on the demand side, can still be economically reasonable in comparison to the potential costs of full electrification. Secondly, the specificities of the sectors concerned need to be taken into account. An obligatory blending target for renewable and low-carbon gases may not correspond to the needs of certain industrial sectors because it may unduly increase their energy cost. EUROCHAMBRES therefore sees this in a very critical light. The question as to the source of the necessary renewable energy arises. Electrification must therefore go hand with the development and use of storage and control systems that connect energy generation, storage and consumers.

Likewise, it needs a resilient infrastructure and very careful planning. Existing power and gas networks need to be optimised for the necessities of integrated energy systems (e.g. by an upgrade of the gas grid to be able to transport decarbonised gas). The gas infrastructure is very well-suited to balance and store intermittent renewable electricity supply. By using existing infrastructure in combination with innovative Power-to-X solutions a surplus of renewable power can be integrated into the energy system in a cost-efficient way. In order to fulfil the needs and to exploit the full potential of an integrated system, permitting procedures must be streamlined and adapted accordingly. In particular, the TEN-E-Regulation has to become a more effective tool for grid development.

6. Create an enabling framework for sustainable finance

All technologies that can contribute to a reduction in greenhouse gas emissions must be taken into account. Investments in transition and enabling activities will make a significant contribution to the reduction of greenhouse gases and the achievement of climate targets and should therefore not be excluded from sustainability ratings ex-ante. EU initiatives in the field of sustainable finance should make it easier for companies to access finance for investments in climate protection and the energy transition, while conventional investments should not be put at a disadvantage. In addition, sectors that produce raw materials or intermediates that are required to manufacture products for climate and environmental protection must not suffer any competitive disadvantages. Against this background, it would be irresponsible to classify entire sectors as non-sustainable per se, since their access to finance would be significantly limited. The taxonomy criteria should reflect the achievability, current practices and the real purpose of the taxonomy.

Innovative companies are particularly dependent on financing via the capital market (private equity, stock exchanges, etc.). It is important to promote the framework conditions for investments in key technologies and innovations and to make them more attractive to businesses. In addition, regulation must be designed in such a way that the bureaucratic effort for companies concerned, especially SMEs, is minimised. In order to do so, measures in the area of sustainable finance must be specified in a transparent manner and in close coordination with the real economy.

7. Exploit the potential of digitalisation to promote the green transition

The digital and green transitions can be mutually supportive if the adequate infrastructure, data security, accessibility for all market participants and support for businesses to enhance their digital capacities is ensured. To avoid market imbalances, these are major concerns for SMEs in particular.

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Data and digital solutions are at the core of smart, green, decentralised and integrated energy systems and a well-functioning circular economy. They can facilitate increased flexibility, increasingly decentralised power generation and demand response management. In relation to decentralisation, bi-directional and smart grids will have to be strengthened. It will be the task of markets to establish the optimal distribution across sectors. Digitalisation also offers consumers (both businesses and final customers) more options to optimise their energy management, for instance when it comes to self-consumption of renewable electricity. The advantages of digital technologies must be reflected accordingly in a change of power market design. When it comes to the circular economy, digital solutions can optimise product design, communication along the supply chains and for investors and information vis-à-vis consumers. Before introducing new reporting requirements for companies, which would be especially burdensome for SMEs, we recommend that better use is made of the existing data stock and networks and to integrate and connect them to a larger extent. This can help to avoid additional administrative requirements for businesses. In relation to sharing information along the supply chain, trust needs to be nurtured on both seller and buyer side. Data protection and conditions for liability have to be clear and transparent from the beginning.

8. Incentivise and create markets for innovative technologies

In order to quickly bring new, low-emission and circular technologies to market maturity, ambitious but realistic milestones must be set, including the support of conventional energy components in a transition period and technologies such as carbon capture, utilisation and storage (CCUS). Otherwise, many technologies that are already technically mature will not be able to achieve the EU-wide economic breakthrough. Enhanced market penetration of alternative technologies must be promoted by improving the framework conditions and targeted incentive mechanisms that follow the principle of technology-neutrality. The level playing field for different technologies must also be reflected in the identification and elimination of legislative barriers, but also more specifically in the update of the Guidelines on State aid for environmental protection and energy (EEAG) as well as in the revision of the Energy Taxation Directive.

For instance, the large quantities of low carbon gases necessary, will lead to a large need for bio-based raw materials and renewable energy. The Commission should therefore analyse demand, production capacity, the resulting gap and potential sources, including from imports. It must be well assessed and demonstrated where low carbon gases can be best deployed compared to other solutions. Large-scale production of low carbon gases requires an EU-wide regulatory framework with clear and EU-wide uniform definitions and specifications. Uniform definitions are also necessary to facilitate and foster cross-border trade in low carbon gases and to enable transparent conversion to other energy types, e.g. from green electricity to green hydrogen.

With regards to the circular economy, a fully functioning market for secondary raw materials must be the top priority. In this regard, the removal of legislative barriers to trade in waste and recycled materials, such as the wide range of end-of-waste criteria, is essential. Also in this context EUROCHAMBRES would like to underline the importance of standardisation and clear and uniform definitions.

9. Enable a just transition that leaves no one behind

The transition to a sustainable economy will not be successful if member states do not manage to bring on board their citizens and businesses, in particular SMEs, in different regions all over Europe including those highly dependent on fossil fuels. The different starting points of regional economies must be taken into account in the design of policy measures and support action. This approach must also be followed in the support to neighbouring partner regions such as the Western Balkans where it can provide a tangible benefit for the resilience of the economy and wellbeing of citizens.

In order to actively contribute to the economic recovery after Covid-19 it is imperative that the Just Transition Fund focuses on support for structural change, i.e. diversification and reconversion of economies, in an economically, socially and environmentally sustainable manner and on the creation of jobs. In general it must be ensured that the JTF is complementary to other funding programmes.

With this in mind, education and training programmes are important levers for making information and knowledge widely available, and understandable. New skills demands due to technological developments and arising sustainable business models should be adequately reflected in the modernisation of both general education systems and vocational education and training (VET) curricula, where necessary. The role of Chambers of Commerce and Industry is crucial in adapting these efforts to the corresponding national systems and in assisting businesses in planning and monitoring their needs.

10. Enable consumers and enhance public participation where appropriate and necessary

Consumers have considerable market power to award those companies that they deem most sustainable. Chambers also acknowledge the Commission's effort to enable consumers to make informed choices. The European institutions should nonetheless assess whether the desired results can be achieved with existing legislation and whether new, mandatory measures are indeed necessary. This holds true in particular but not exclusively with regards to the announced Sustainable Product Policy Initiative, the Sustainable Corporate Governance Initiative including due diligence and the New Consumer Agenda. The aim must be to provide consumers and investors with tailored information without creating excessive additional costs for businesses involved. In addition, at the moment Chambers fail to see how mandatory certification, extra requirements along often international supply chains and additional responsibilities for the corporate management would translate into a competitive edge for European companies.

The same holds true when considering potential trade-offs between public participation and the achievement of overarching goals the entire society including the economy has subscribed to. Involving stakeholders and enabling citizens to voice concerns and bring forward proposals are core elements of the rule of law. However, while a substantial public interest and participation in clean energy projects needed for the transition to a more sustainable economy is very positive, it can quickly turn into a considerable stumbling block if taken too far. For an effective governance of this transition the rights of civil society, business stakeholders, experts and others and at what stages their input is critical for progress must be clearly defined and well balanced. By doing so, the coordination and cooperation between political institutions and civil society can be streamlined, legislative output optimised and projects and investments relevant for the transition to a sustainable economy supported.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 98% of which are SMEs – through 45 members and a European network of 1700 regional and local Chambers.

Further information: Mr. Clemens Rosenmayr, Tel. +32 2 282 08 90, rosenmayr@eurochambres.eu
Press contact: Ms. Agatha Latorre, Tel. +32 2 282 08 62, latorre@eurochambres.eu