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From: Presidency

To: Permanent Representatives Committee/Council

Subject: *Preparation of the Competitiveness Council on 27-28 February 2020*
European Green Deal - a transition to climate neutral and circular
EU industry
Presentation by the Commission
Policy debate

Delegations will find attached a Presidency note on "European Green Deal - a transition to climate neutral and circular EU industry" with a view to the policy debate at the Competitiveness Council on 27 February 2020.

Competitiveness Council, 27 February 2020
European Green Deal - a transition to climate neutral and circular EU industry
Presidency background paper for exchange of views

The European Green Deal, published by the Commission on 11 December 2019, sets out how to make Europe the first climate-neutral continent by 2050, boosting the economy, improving people's health and quality of life, caring for nature, and leaving no one behind.

On 12 December 2019, the **European Council** endorsed the objective of achieving a climate-neutral EU by 2050, took note of the Green Deal Communication and invited the Council to take work forward in line with its endorsement of the 2050 objective. The **European Council** underlined that the next multiannual financial framework (MFF) will significantly contribute to climate action.

Furthermore, the **European Council** stressed that all relevant EU legislation and policies need to be consistent with, and contribute to, the fulfilment of the climate neutrality objective while respecting a level playing field.

The European Green Deal provides a roadmap with policies and measures to deliver the transformative change we need across all sectors. Many of them will be implemented in the Commission's first year in office and form a major part of the Commission's Work Programme for 2020.

The Commission has announced that it will improve the way its better regulation guidelines and supporting tools address sustainability and innovation issues. The objective is to ensure that all Green Deal initiatives achieve their objectives in the most effective and least burdensome way and all other EU initiatives live up to a green oath to 'do no harm'.

The Croatian Presidency stands ready to facilitate discussions in the Council on all proposals in that context.

Mobilising industry for a clean and circular economy

European industry plays a central role in the future of Europe as an important source of sustainable and inclusive economic growth. A strong industrial base is the foundation of our competitiveness and prosperity. Without modern industry, it will be impossible to transform society towards a sustainable, climate-neutral and digital future.

As outlined in the European Green Deal, achieving a climate neutral and circular economy requires the full mobilisation of industry. It takes 25 years – a generation – to transform an industrial sector and all the value chains. The transformation must take Europe from a linear economy to a circular one, i.e. from one, which “takes- makes – sells – throws away” to one that repairs, reuses, remanufactures and, only when those options have been exhausted, recycles and circulates the resources back into production. To be ready in 2050, decisions and actions need to be taken in the next five years.

New business models enabled by digitalisation are urgently needed to accelerate circularity and promote dematerialisation of our economy, thus making Europe less dependent on primary materials.

The transition is an opportunity to expand sustainable and job-intensive economic activities. There is significant potential in global markets for low-emission technologies, sustainable products and services. Likewise, the circular economy offers great potential for new activities and jobs. However, the transformation is too slow and uneven.

At the same time, as long as many international partners do not share the same ambition as the EU as the EU increases its climate ambition, there is a risk of carbon leakage. This would be either due to production being transferred from the EU to other countries with lower ambition for emission reduction, or due to EU products being replaced by more carbon-intensive imports. If this risk materialises, there would be no reduction in global emissions. The Commission is therefore looking into a carbon border adjustment mechanism for selected sectors (in view of presenting a proposal in 2021).

In March 2020, the Commission will adopt an EU industrial strategy. It should address the twin challenge of the green and the digital transformation, touching upon all relevant policy areas. Europe must leverage the potential of the digital transformation, which is a key enabler for reaching the Green Deal objectives. Stronger circular industrial value chains are crucial for a green and sustainable EU industry and enable competitive advantages for EU as a first-mover towards carbon neutrality. Corporate governance should change as many companies focus on the short-term financial return compared to their longer-term development and sustainability. Promoting new forms of collaboration with industry and investments in strategic value chains is essential. Strengthening European value chains is important in a global context to enhance industrial competitiveness and strategic autonomy. Projects of common European interest are one of the relevant tools for supporting strategic value chains at EU level, but should not be the only ones.

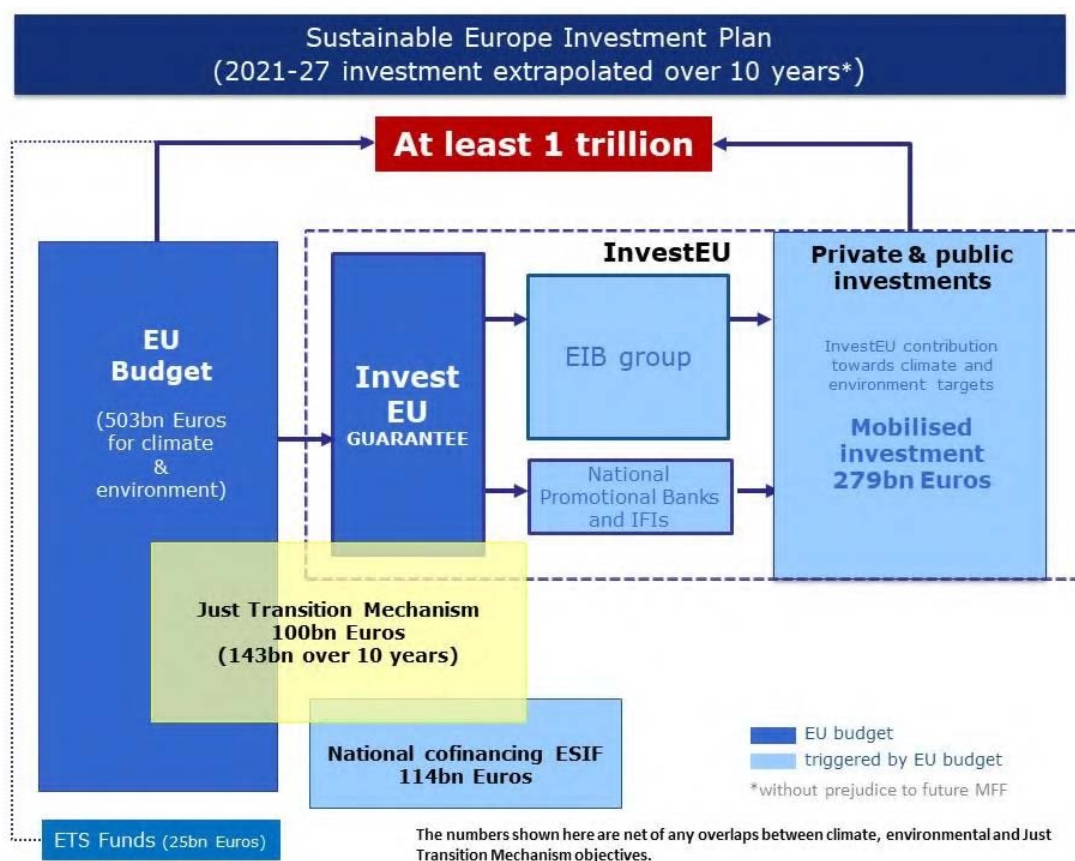
Energy-intensive industries, such as steel, chemicals and cement, are indispensable to Europe's economy, as they supply several key value chains. The decarbonisation and modernisation of this sector is essential. The recommendations published by the High Level Group on energy-intensive industries show the industry's commitment to these objectives¹. They outline actions that could provide the right market signals to attract new investments in Europe, help companies implement cost-effective pathways towards climate-neutrality and seize new business opportunities in Europe and abroad. These recommendations also focus on the need to ensure a just transition and consider the need to equip workers with new skills and help communities dependent on these industries to manage the transition. Ensuring the supply of sustainable raw materials necessary for clean and digital technologies is also a strategic question to deliver the Green Deal.

¹ https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6353

Together with the industrial strategy, a new circular economy action plan will help modernise the EU's economy and draw benefit from the opportunities of the circular economy domestically and globally. A key aim of the new policy framework will be to stimulate the development of lead markets for climate neutral and circular products, in the EU and beyond as well as to reorient the European economy towards maximising value retention and minimising primary resource use. The action plan will include a 'sustainable products' policy that will ensure that products are designed for sustainability and circularity and for reduced environmental and social impacts throughout their life cycle, on the basis of comparable, and verifiable data . It will prioritise reducing and reusing materials before recycling them. It will foster new business models and set minimum requirements to prevent environmentally harmful products from being placed on the EU market. It will strengthen the extended producer responsibility.

The transition to a sustainable and climate-neutral economy will require substantial investment all over Europe and a strong policy response at all levels. Achieving the current 2030 climate and energy targets is estimated to require € 260 billion of additional annual investment, representing about 1.5% of 2018 GDP. This investment will need the mobilisation of the public and private sectors. On 14 January, the Commission presented the European Green Deal Investment Plan to help meet these investment needs (Figure 1). At least 25% of the EU's long-term budget should be dedicated to climate action, and the European Investment Bank, Europe's climate bank, will provide further support. For the private sector to contribute to financing the green transition, the Commission will present a renewed strategy for sustainable finance in 2020.

Figure 1. Financing elements under the Sustainable Europe Investment Plan



Digital technologies are a critical enabler for attaining the sustainability goals of the Green Deal in many different sectors. The Commission intends to explore measures to ensure that digital technologies such as artificial intelligence, 5G, blockchain, cloud and edge computing and the internet of things can accelerate and maximise the impact of policies to deal with climate change, circular economy and protection of the environment. These technologies can accelerate the integration of electricity from renewables in Europe’s energy markets and induce customers to save energy. Digitalisation also presents new opportunities for distance monitoring of air and water pollution, or for monitoring and optimising how energy and natural resources are used. At the same time, Europe needs a digital sector that puts sustainability at its heart. In this regard, the newly adopted digital strategy contains measures to improve the energy efficiency and circular economy performance of the sector itself, from broadband networks to data centres. In addition, as part of the aforementioned Circular Economy Action Plan, the Commissions plans to give particular focus area on electronics, where it will address pressing circularity gaps of electronic devices.

In this context, Ministers for Competitiveness are invited to discuss key elements of the proposed European Green Deal and exchange views on the following questions:

1. How should the EU and national policies support industry's contribution to the attainment of the climate neutrality objective in 2050? Are specific policies and measures needed for key industrial sectors in respect of achieving climate neutrality and the other objectives of the Green Deal?
 2. To what extent are the recommendations published by the High Level Group on energy-intensive industries consistent with answers to questions (1) and (2)? Which actions and measures need to be taken at EU level in order to reduce the risk of carbon leakage?
 3. How can digitalisation facilitate and accelerate the transition to a circular economy?
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