



Red Herring

The EU Industrial Strategy gives us a... in the EU decarbonisation debate

“Our new industrial strategy is entrepreneurial in spirit and in action”

European Commission assessing its own Industrial Strategy

The much anticipated EU Industrial Strategy, with its corresponding Circular Economy Action Plan give us two texts laden with follow up actions. In other words, the plan is... “There will be a plan.” Many of them, in fact. Whether or not they measure up to a strategy, we maintain our right to skepticism, while at the same time we welcome the many positive (yet disconnected) elements across the texts.

The central theme of the EU Industrial strategy relies on the “twin ecological and digital transitions”. But, the ecological and digital transitions are not twin transitions! They have very little in common, if anything, other than unfolding at the same time in human history. Moreover, unless computers use carbon-free electricity, one can undermine the other. So by twinning the two and then focusing on the digital one, the European Commission created a “red herring” for the EU industrial decarbonisation debate.

The document sets out a digital strategy for global competitiveness but not a net-zero strategy for carbon intensive industries in the EU. Not only are those industries first mentioned almost half-way through the document, but they are fundamentally left behind the other focus areas. The problem is that these industries require urgent incentives, because investments for 2050 are made now, they are not as adaptable and flexible as the digital world and an “SME to SME approach” won’t help stagnating old heavy industries to innovate.

Even if there is some equivalence between the ecological and digital transitions, it’s not apparent how this ‘insight’ supports a reduction in emissions from energy intensive industrial sectors. Ultimately the approach lacks a much needed support system to decarbonise heavy industries. A positive element in here is the emphasis on industrial ecosystems and value-chain reductions, although it is difficult to assess if this is again, about digitalisation or about heavy industry “ecosystems”.

Quote, Suzana Carp, head of EU Engagement

“The economic rationale of the digital sector is very different and requires different investment guarantees than energy intensive industries, which are now, in 2020, making their choices for 2050, given the long timescales required. There is very little for them in this. In fact, they only get their first mention one third of the way through the document.”

Key aspects:

❖ “Energy Efficiency First” - Deja-vu?

The EU badly needed a move beyond “energy efficiency first” (we have already tried this) towards “carbon efficiency first” so that an old idea could have been tuned up for net zero compatibility. This would have encompassed a variety of technologies, including product substitution, etc.

❖ “The EU ETS Innovation Fund will support clean products in all Energy-intensive sectors”

Very good, but for now the EU ETS Innovation Fund still uses the ETS benchmarks to assess innovation and we know that these benchmarks leave the very innovators (e.g. the clean steel or clean cement industry, etc.) short of support.

❖ “Being competitive requires competition”

Our view is that being competitive requires innovation, affordability and of course, carbon efficiency. In the case of the current EU policy framework, we have an ETS that creates barriers against the competition to innovate. If the focus will be on removing barriers to competition it would need to create a level playing field between different industries and within the same industry which supports the 3 elements above. But competitiveness won't be achieved by continuing to shield EU industry with free allocation while keeping the innovators out of the ETS benchmarks so they are not lowered for others (i.e. therefore operating against their very purpose).

❖ “The EU will continue efforts to uphold, update and upgrade the world trading system so it is fit to address today's challenges and tomorrow's realities”

Indeed, a world where trade is free of any responsibilities towards the environment is no longer possible. As the world's largest market, the EU can and must lead the trend to embed high environmental standards into global trade. However, if that was really the vision, the border carbon adjustment (BCA) should be a key component of the Strategy, not a side mention.

While a BCA is the most effective measure of ensuring a level playing field for European industries, it is also the single most effective way to ensure that carbon is priced around the world in a first attempt to curb the growth of global emissions. How come it is only considered as an option instead of a necessity? Again, this falls short of providing certainty to EU heavy industries that their “home will always be Europe”.

We very much welcome the Commission's statement that BCAs are compatible with WTO, something we in Sandbag have long been saying. The times of global trade which wrecks the climate should be over and there is no fair trade without fairness in terms of the GHG emissions.

Quote 2, Adrien Assous, Sandbag Chairman

“We welcome the European Commission’s commitment to “do what it takes” for Europe to remain the home of industry, but we wish the same level of determination was shown in delivering net zero by 2050.”

We agree that industry needs secure supply of clean and affordable energy and that we need to create lead markets in cleantech but we would have liked to know the plan on how these are going to be achieved.

We are concerned with the belief that first movers amongst Member States will end up holding the competitive advantage because we want to see European leadership and not first mover advantage turning into a two-speed Europe failing to deliver on climate change as a whole.

In previous times, climate NGOs would have criticised this plan for not asking more from heavy industries themselves and keeping economic growth as a priority. But in today’s climate emergency, cutting emissions has to be part of the economic growth model. Innovation in net zero technologies is the terrain of competitiveness and in that regard, the EU Industrial Strategy fails at making sure that European heavy industry is sufficiently incentivized to reach net zero by 2050.

Top 5 best things about the EU Industrial Strategy:

1. The focus on reductions to 2030 and on the importance of the next 5 years;
2. Sectoral approach: construction and clean steel, including a chemicals strategy although details are still to come;
3. Acknowledgement of WTO compatibility for #bordercarbonadjustments
4. Vision for clean hydrogen and for the development of European energy networks as first steps in ensuring low-carbon infrastructure becomes available to industry
5. Promotion of public procurement as a key way to creating lead markets for low-carbon products.