SUSTAINABILITY PRIORITIES FOR THE 2024-2029 EU TERM

EUROCHAMBRES

Eurochambres Sustainability Priorities for the 2024-2029 EU term

In the next five years, the European Union faces the challenge of balancing economic stability with ambitious climate goals. Integrating the European Green Deal with a strong competitiveness strategy is crucial to combat deindustrialisation and secure high-quality jobs. Policymakers must be careful in crafting future regulations, ensuring they bolster rather than compromise Europe's position on the global stage. Only through a comprehensive strategy can the EU safeguard its economic stability while advancing towards its climate objectives, ensuring a prosperous and sustainable future for all Europeans.

1. Summary

For the next legislative period 2024-2029, Eurochambres urges EU policymakers to:

- Energy security and infrastructure: Modernise and expand energy infrastructure like grids and storage capacities. Secure natural gas supply, necessary for the transition, and explore carbon-neutral hydrogen. Implement policies and strategies for affordable, sustainable energy.
- Streamlining regulation: Simplify regulations, speed up permitting processes for sustainable projects, reduce administrative burdens, and base policies on solid data to encourage clean technology investment.
- Promoting technology openness: Adopt a technology-neutral policy to support a wide range of carbon reduction technologies, facilitating market transitions for advanced energy solutions. Streamline targeted funding access and reduce bureaucratic barriers to maintain the EU's global competitiveness and achieve climate goals.
- Fostering international collaboration: Prioritise global collaboration and harmonize climate policies, including coordinated greenhouse gas pricing. Strengthen the EU Emissions Trading System and implement the Carbon Border Adjustment Mechanism within a WTO-compatible framework to prevent carbon leakage and support balanced global climate efforts.
- Access to financing: Improve access to finance for sustainable projects through private investments, which also considers a step-by-step transition toward climate neutrality. Simplify the EU sustainable finance framework and effectively support small and medium sized companies.

2. State of play

In 2019 the European Green Deal was presented as a growth strategy. However, five years later, European economies are experiencing recessionary pressures, exacerbated by high inflation rates and an uncertain regulatory environment. The drive towards climate neutrality by 2050, with a significant target set for 2040, requires a dramatic increase in renewable energy production and industrial investments—factors six times higher than in the previous decade. This upscaling comes at a time when businesses are grappling with severe economic downturns, falling demand, rising production costs, and shifting investments to other regions.

The surge in energy prices in 2022 — triggered by Russia's full-scale invasion of Ukraine early that year — was particularly painful and energy prices remain high in Europe. Data shows that GDP Growth rates have experienced a fall since 2021.

Over the last years we have seen how excessive regulations, whose impact and effectiveness in combating climate change is sometimes questionable, are negatively impacting European businesses. The prospect of further regulatory requirements in the next Commission mandate, undermine our call for balance.

The global landscape of innovation and green transition sees the EU in tough competition, particularly against the backdrop of protectionist policies in foreign economies. Prior to 2008, the U.S. economy was approximately 90% the size of the EU's economy. By 2022, the situation has reversed, with the EU economy being 80% of the U.S. economy in absolute terms. Foreign direct investment inflows to the EU are falling, while they are increasing in the US and elsewhere. This competitive disadvantage is exacerbated by the closure of European sites, production halts, and job losses, underscoring the urgent need for policies that enhance the EU's international competitiveness.

Crucial for the green transition is the creation of a unified energy market. Despite setting high aspirations, the European Commission's efforts have not matched the necessary pace for expanding cross-border grid infrastructure. The European Court of Auditors' recent findings highlight a slow integration of electricity markets over the past decade, with the 2014 goal for complete European integration, set in 2009, remaining unfulfilled. This inconsistency and delay in infrastructure development and market integration present considerable difficulties for businesses in planning and operations.

The energy crisis of 2022 underscored the resilience benefits of a well-integrated European electricity market, prompting EU leaders to commit to reversing the trend towards energy renationalisation and to focus on completing the internal market. Nonetheless, varying interpretations of the energy crisis by EU member states threaten this unified approach, at a time when investment in energy generation and grid infrastructure is critically needed.

After five years of excessive introduction of new legislation under the European Green Deal, the EU is entering in a new period of implementation of the measures. Some have already been put in place, while others are still to be fully implemented. This gives a valuable opportunity for the Green Deal to be assessed and adjustments to be made.

3. Recommendations:

a) Ensuring energy security at competitive prices and improving infrastructure

Achieving climate neutrality is an ambitious but essential goal that necessitates a comprehensive and integrated approach, focusing not just on setting targets but also on addressing the underlying infrastructural needs critical for this transition. The climate neutrality goal must be achieved while ensuring the security of supply and the competitiveness of European companies. Cross-border burdens within the EU are to be avoided and globally competitive energy prices ensured.

In order to improve the security of supply, it is necessary to further diversify gas supply countries. Furthermore, it is crucial to foster innovation which can considerably reduce energy losses due to production and transport, in particular of hydrogen and its derivatives.

Central to this endeavour is the expansion and integration of the energy grid, which requires coordinated planning, streamlined permitting procedures, and measures to mitigate financial risks for developers. Infrastructure is crucial for facilitating seamless transmission and cross-border interconnections, enabling a more efficient and reliable energy system. This is particularly crucial given the increasing electrification of the European economy and rising renewable energy generation (mandated by EU law itself), which will place increasing strains on the energy grid and expose its weak points. This also includes the expansion of infrastructure required to connect to LNG terminals. Moreover, hydrogen emerges as a transformative energy carrier with the potential to significantly reduce CO_2 emissions across industries. Building a robust infrastructure (including import terminals and storage facilities) and implementing a certification system for hydrogen and its derivatives, is vital for the exploitation of its low-emission benefits.

Additionally, the transition to a renewable energy economy underscores the growing need for adequate energy storage solutions. As electricity from renewable sources like wind and solar cannot be stored on a large scale using current methods, developing and investing in new storage technologies is essential to balance production with consumption patterns and ensure the security of supply.

The digitalisation of the energy system, incorporating advancements such as artificial intelligence, is key to achieving flexibility and security in supply. Moreover, establishing clear legal framework conditions is essential for encouraging investment in infrastructure development, including for CO_2 capture and storage, thereby reducing uncertainties and fostering efficient solutions through sustainable competition.

b) Promoting technology openness

To enhance the European Union's competitive edge in the global market while addressing climate goals, it is essential to adopt a technology-neutral approach in policy-making. Given the speed at which the climate is deteriorating, we cannot afford to ignore any existing or new instrument that enables the EU to achieve its goal of climate neutrality. This means that technology neutrality should be guiding all EU initiatives on climate action. Therefore, the EU should not pick “winners” in the search for climate-friendly solutions by either actively favouring certain types of technology or effectively curtailing research into promising avenues of innovation. This is particularly important in the fields of energy efficiency, electrification, and sustainable product development.

More specifically also a broad spectrum of carbon reduction and removal technologies based on their effectiveness and potential, must be supported. This approach should be complemented by streamlined, targeted access to funding, reducing bureaucratic barriers that often hinder rapid technological development and deployment.

c) Accelerating and streamlining permitting procedures

Considering the very ambitious targets, the EU must seriously take actions to accelerate the deployment of renewable energy by significantly reducing the length of permitting procedures in the EU. Currently European companies still face permitting procedures that take up 9 years in some member states. Recent initiatives by the European Commission, like the Net-Zero Industry Act aim to prepare the EU for the rapidly evolving and highly competitive global landscape of clean technology investments, where scale and speed are crucial. Simpler and faster permit-granting processes are a basis to attract more investments in Europe in key technologies for a successful decarbonisation. These measures represent important initial steps. The EU should simplify environmental regulations to accelerate permitting of these projects: For example, in the area of species and nature conservation, environmental impact assessment or pollution and water protection.

To fully transition the economy to net zero, there must be a broader emphasis on enhancing competitiveness within European policymaking, thereby encouraging the necessary investments.

d) Fostering international collaboration

The guiding principle of internationally oriented climate policy should continue to be the international harmonisation of climate protection standards and coordinated pricing of greenhouse gas emissions. Effective climate protection is only possible through new investments in the energy transition and efforts at the global level. EU measures need to be in sync with other economies if they are to be impactful in combating global climate change. Eurochambres believes that implementing the CBAM within an international and World Trade Organization (WTO)-compatible "Climate Club" among the G7 Members would reduce the trade policy risks for the economy. Efforts in this direction are seen as positive, however, making access to the Climate Club conditional on explicit carbon pricing will be critical.

However, European criteria must allow for the import of renewable energies –in particular hydrogen and its derivatives, e-Fuels/SAF- since the EU countries won’t be able to meet their needs alone and in order to achieve the EU objectives of the ReFuelEU and of importing 10 million tons of green hydrogen by 2030. Indeed, the EU countries find themselves in a strong competition with other countries such as the USA, China, South Korea and Japan in the hydrogen race.

e) Enhancing access to sustainable finance

The European Commission estimates an additional investment of 1.5% of the EU's GDP, over €620 billion annually, to achieve the European Green Deal's targets. To achieve this, a large proportion of the investments must be made by the private sector. To this end, there needs to be a re-evaluation and simplification of the current sustainable finance framework to improve access to financing for sustainable projects, especially for SMEs, which contribute around 52% to Europe's GDP.

Simplifying reporting requirements to reduce complexity and costs is crucial, aligning with the Commission’s target to reduce the reporting burden by 25%. It is also important to ensure that sustainable finance measures support both financial markets and the real economy, balancing the needs of investors and companies, and aligning requirements for financial institutions and company disclosures. Improving the EU taxonomy involves addressing usability issues and ambiguities in technical screening criteria and Do No Significant Harm (DNSH) requirements, speeding up the inclusion of new activities, enhancing transparency, and ensuring proportionality in disclosures.

There is a need for a timely and fundamental review of the CSRD, ESRS and other related European regulations to ensure proportionality. In the short term, a fundamental revision of the thresholds for company sizes in the EU Accounting Directive 2013/34/EU - beyond the inflationary adjustments already made - could particularly alleviate the burden on medium-sized companies. Moreover, the trickle-down effect on non-reporting SMEs within the value chain of reporting companies must be considered and reduced, The Corporate Sustainability Reporting Directive should urgently incorporate a "Value Chain Cap" in the form of a future practical voluntary SME standard (Basic Standard of VSME) that takes into account the needs and capabilities of non-capital market-oriented SMEs and reporting companies.

There is no need to extend the taxonomy to small and medium-sized enterprises (SMEs). Implementing such a taxonomy would impose unbearable reporting requirements on SMEs, creating unnecessary burdens. It would also create new barriers to bank lending to these companies, potentially hampering their growth and financial stability. SMEs play a vital role in the economy and adding this complexity could undermine their ability to thrive.

Moreover, guaranteeing international compatibility involves promoting mutual recognition and convergence of EU sustainability reporting standards with international frameworks, ensuring a level playing field by applying the same reporting requirements to non-EU companies operating in the EU, and providing clear guidance for activities outside the EU.

Eurochambres – the association of European chambers of commerce and industry – represents more than 20 million businesses through its members and a network of 1700 regional and local chambers across Europe. Eurochambres is the leading voice for the broad business community at EU level, building on chambers' strong connections with the grass roots economy and their hands-on support to entrepreneurs. Chambers' member businesses – over 93% of which are SMEs – employ over 120 million people.

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