ZEP Advisory Council 60
25 September 2019

Agenda Item 5: Overview of European Parliament, Council & other EU relevant activities

Long-Term Climate and Energy Strategy

20th June: EU Leaders fail to endorse climate neutrality by 2050

On 20th June, the European Council failed to adopt conclusions endorsing climate neutrality by 2050 (see here for the conclusions). Reportedly, 24 Member States committed to this goal, while Poland, Estonia, Czech Republic and Hungary still hold some reservations.

Poland is stressing that a cost analysis would have to be done first before committing to such an ambitious goal. We now understand that leaders foresee more concrete guidance at the **17-18 October European Council.** The Commission will then have to produce the final EU long-term strategy, by early 2020 at the latest, for submission to the UNFCCC Secretariat under the Paris Climate Agreement.

Leaders adopted the following statements:

- The European Council invites the Council and the Commission to advance work on the conditions, the incentives and the enabling framework to be put in place so as to ensure a transition to a climate-neutral EU in line with the Paris Agreement. The Conclusions include a footnote stressing that *"for a large majority of Member States, climate neutrality must be achieved by 2050".*
- The transition must preserve European competitiveness, be just and socially balanced, take account of Member States' national circumstances and respect their right to decide on their own energy mix, while building on the measures already agreed to achieve the 2030 reduction target.
- The European Council will finalise its guidance before the end of the year with a view to the adoption of the EU's long-term strategy, which needs to be submitted to the UNFCCC in early 2020.
- The EU and its Member States remain committed to scaling up the mobilisation of international climate finance.

11th-12th July: Finnish Presidency pushes for increased ambitions and net-zero by 2050 goal at Informal Environment Council

On 11th -12th July, the Finnish Presidency organised an Informal Environment Council in Helsinki, with climate change and circular economy issues on the agenda.

Regarding climate change, the discussion was on increasing the level of climate ambition (see press release here and background document here). The Finnish Presidency wants to push all Member States to commit to increasing the EU's NDC ambition under the Paris Agreement and to accept net-zero emissions target by 2050 at the EU leaders Summit in October. This includes the Czech Republic, Poland, Hungary and Estonia, which previously blocked the EU leaders from confirming the net zero ambition by 2050.

The Ministers largely agreed that the EU's ambition will need to be increased as requested by the UN. They further stressed that sustainable financing has to be made available in order to pursue these goals, and that Member States will need to form alliances with the private sector, NGOs, and the civil society to make sure that the climate targets are reached.

During the press conference, Head of Unit Elina Bardram (DG Clima C1) revealed that for instance, the Commission is considering a so-called Solidarity Mechanism for a just transition, specifically designed for Member States which may struggle with the energy transition to encourage them to get on board climate neutrality by 2050. Bardram also noted that they are considering other support schemes as part of the ongoing EU MFF negotiations.

16th July: German Ursula van der Leyen elected as Commission President-Elect: policy priorities and next steps

On Tuesday 16 July, the European Parliament elected Ursula von der Leyen (VDL) as President of the next European Commission in a secret paper ballot (see press release here).

VDL won 383 seats, only 9 votes above the absolute majority of 374 she needed. This wafer thin majority she ensured through extensive concessions to both the liberals (RE) and the social democrats (S&D) on climate and social affairs. Prior to the vote, VDL presented her vision and political priorities in a debate with MEPs in a bid to ensure their support.

To deliver on her promises on social affairs and climate action, she will likely need to lean heavily on experienced VPs such as Frans Timmermans and Margrethe Vestager. VDL is already dubbed a 'centre-right candidate forced to push a centre-left policy agenda'. The EPP group is seen to have lost influence in the Commission leadership.

The central focal point of VDL's political programme is the European Green Deal, an ambitious cross-sectoral and cross-portfolio package delivering on climate action.

The commitments below on the Green Deal are of particular relevance:

- A two-step approach to reduce emissions by 50%, if not 55%, by 2030, compared to the current 40%.
- A European climate law setting the 2050 climate neutrality target in law.
- Extending the EU ETS to other sectors.

- Lead international negotiations to increase the level of ambition of other large emitters by 2021.
- A Strategy for green financing.
- A sustainable Europe investment plan.
- Turning parts of the European Investment Bank into a climate bank to unlock €1 trillion of investment over the next decade.
- Introduction of a carbon border tax to avoid carbon leakage.
- A Just Transition Fund to support those most affected.

11th September: Commission publishes Communication on UN Climate Action Summit

The Commission published a *'Communication on the 2019 Climate Action Summit hosted by the UN Secretary General in New York'* (see here). It is accompanied by the results from a recent Eurobarometer on climate change and energy (see here).

The Communication is largely a profiling effort in advance of the Climate Summit and the subsequent UN SDG Summit on 24th -25th September. It notes that the EU is preparing to communicate a long-term strategy by early 2020 with a view to climate neutrality by 2050.

The goal of climate neutrality by 2050 is justified by the Commission as *"an investment and modernisation challenge as well as a great opportunity to get a 'first mover' competitive edge, create new jobs and increase standards of living for people".* It stresses the importance of a just transition, while noting that *"climate and environment policies must go hand in hand."*

The EU's main message at the Summit *"will be about more than just setting ambitious targets. It will be about solid and comprehensive implementation."*

Next steps

- 23 September 2019: UN Climate Summit
- 24 September 2019: Energy Council to debate draft NECPs
- 4 October 2019: Environment Council to adopt Conclusions on COP25 and debate long-term strategy
- 17-18 October 2019 (tbc): EU Leaders to finalise guidance on the long-term strategy
- 26 November-1 December 2019: Pre-COP25, Costa Rica
- 2-13 December 2019: COP25, Chile
- 4 December: Energy Council
- 19 December 2019: Environment Council
- 31 December 2019: Deadline for final NECPs
- End-2019 / early-2020 (tbc): Commission to present the long-term strategy proposal
- 1 January 2020: Deadline for Member State long-term strategies
- 2020: Start of Paris commitments
- By early 2020: EU to communicate long-term strategy to UNFCCC

Horizon Europe

28th June: Public Consultation on Horizon Europe programme

On 28th June, the Commission launched a public consultation to gather feedback from stakeholders in the EU and beyond on how Horizon Europe should be structured in detail and implemented in practice (see here). The deadline for contributions was 8 September.

Stakeholders' input will feed into a 'strategic plan' for Horizon Europe guiding the work programmes and calls for proposals in the 2021-2024 period. The European Research and Innovation Days on 24-26 September in Brussels will be a key event for further input into this so-called 'co-designing' process.

In July, the Commission announced a list of experts selected that will form the five "Mission Boards" (see here). They will be meeting for the first time during the R&I days on 24-26 September.

Key questions of the consultation include:

- Which are the main macro-challenges that the investments should focus on?
- Which SDGs should be prioritised in the investments?
- Which EU policy objectives should the programme prioritise? Protective Europe / Competitive Europe / Fair Europe / Sustainable Europe / Influential Europe.
- What should be the priority areas within those respective policy objectives?
- Which elements can contribute in boosting the programme's impact? E.g. international cooperation.

2nd July: Last Horizon 2020 budget tranche announced

The European Commission announced the Horizon 2020's budget plan for the year 2020, which will be the last tranche (€11 billion) of the current programme (see press release here).

Over the next year, the Commission will focus on a fewer number of topics, namely climate change, clean energy, plastics, cybersecurity and the digital economy. In broad terms, this Work Programme allocates €3.7 billion to build a low-carbon and climate resilient future and €1 billion to the circular economy. €206 million is earmarked for projects to transform sectors that are traditionally energy intensive with the aim of significantly lowering their environmental footprint.

Note in particular the following opportunity:

- Low carbon industrial production using CCUS LC-SC3-NZE-5-2020
  Opening date: 05 May 2020
  Deadline model: single-stage
  Deadline date: 01 September 2020 17:00:00 Brussels time

As part of the international cooperation flagships in areas of mutual benefit in 2020, this Work Programme also includes partnerships with the US, Canada and Japan on clean energy and with China on energy and natural resources. Finally, in anticipation of Horizon Europe, a number of cross-

cutting calls on interdisciplinary challenges in the area of Competitive, Low Carbon and Circular Industries are being tested.

4th – 5th July: Informal Meeting of Ministers Responsible for Competitiveness on R&I

The Informal Meeting of Ministers Responsible for Competitiveness met on 4th -5th July in Helsinki (see press releases here and here). The discussions were part of the preparation for the COMPET Council meetings in September and November 2019.

The main topics under discussions were:

- **R&I**: Ministers concluded that EU's R&I policy should be an integral part of the sustainable growth agenda. The Finnish Minister of Economic Affairs Katri Kulmuni stated that the discussion provided valuable input for the preparation and implementation of an EU innovation-led sustainable growth agenda beyond 2020. She also highlighted that sustainability and the mitigation of climate change are becoming a central driver for global competitiveness.

- **Horizon Europe**: Ministers discussed a mission-oriented approach in the upcoming Horizon Europe programme and officially launched the work of the five Missions and announced the five experts to chair them. Their task will be to identify and design the missions, as well as to propose specific targets and timelines.

The Mission Board chairs are:

- **Connie Hedegaard,** ex European Commissioner for Climate Action, for the mission on 'Adaptation to Climate Change including Societal Transformation'
- **Harald zur Hausen**, Nobel Prize Laureate in Physiology or Medicine, for the mission on 'Cancer'
- **Pascal Lamy,** ex Trade Commissioner and Director-General of the World Trade Organisation, for the mission on 'Healthy Oceans, Seas, Coastal and Inland Waters'
- **Hanna Gronkiewicz-Waltz**, ex Mayor of Warsaw, for the mission on 'Climate-Neutral and Smart Cities'
- **Cees Veerman,** ex Dutch Agriculture Minister, for the mission on 'Soil Health and Food'

Professor Mariana Mazzucato, Special Advisor for Mission Driven Science and Innovation to Commissioner Moedas, also presented a new report "Governing Missions in the European Union", which outlines the conditions of making missions a success.

11th September: Commission consultation on European Partnership for Clean Hydrogen

The European Commission opened a consultation on the European Partnership for Clean Hydrogen, under the Horizon Europe programme (see here). The consultation will run until midnight of 6 November 2019.

This consultation is based on a roadmap (see here) which outlines how the PPP will be build upon the existing Fuel Cells and Hydrogen 2 Joint Undertaking (FCH2JU). The PPP would have a *"significantly revised scope, involve more partners and take account of the strengthened societal, economic and technological impact criteria of Horizon Europe".* This comes at a time when various countries are increasing their support for hydrogen, with the Netherlands calling for a dedicated EU strategy and Germany having announced that it wants to become the world leader in hydrogen technology.

The consultation is a high-level exercise (which shows the intention of the Commission to set up a more wide-ranging and effective Partnership for the FCH2JU), asking the respondents to point out the main issues that have resulted in a low rollout of clean hydrogen-based technology. The consultation primarily asks to assess potential issues such as negative market forces, issues with regulatory regimes, and problematic rollout of hydrogen infrastructure coupled with high costs.

The consultation asks the following questions of specific relevance:

- What are the research and innovation problems linked with the FCH2JU? Are these linked to the lack of understanding or knowledge of the technology, the EU having an innovation gap in this area, or is there a lack of interest of major market players in H2 and fuel cells research?
- Are there structural and resources problems such as limited collaboration and pooling of public and private resources, and is there a limited role for the current industrial policy in framing the market perspectives?
- Importantly the consultation asks the respondents to answer where they believe are the major areas for a lack of uptake of hydrogen and fuels cells innovation:
    - Negative market forces: Is this caused by small current market size; high financial risk for early movers, lack of funding/ de-risking financial instruments for large-scale H2/fuel cell projects; fragmentation among players, lack of critical mass;
    - Regulative regimes: overly restrictive regulation on energy markets and especially energy areas that can aid in sector coupling; excessively limiting regulatory regime on H2/fuel cells; fragmentation among Member States and lack of EU binding targets.
    - Infrastructure and high-cost solutions: lack of refuelling infrastructure; market failures due to inadequate industry investment; high costs of clean hydrogen and fuels cells solutions hindering mass commercialisation.
- The consultation asks how these challenges should be tackled by Horizon Europe. The options they propose are progressively more impactful, listing the possibility of using traditional calls under Horizon Europe work programmes, a Co-funded Partnership, co-programmed partnership, or an institutionalised choice.
- Which functions should the Partnership implement: a joint R&I programme, collaborative R&I projects, deployment and piloting activities, input to regulatory aspects, or the co-creation of solutions with end users?

- Based on the inception impact assessment we have covered last month (here), evaluate whether the technologies, research areas, geography, types of partners, range of actives, and sectoral coverage should be within the scope of this potential European Partnership.
- The study asks the respondents to assess the partnership's potential the societal (public health etc.), economic/technological (increased industrial leadership, re-skilling of HR resources, solutions for energy storage, demand-side solutions, and low-carbon solution) and scientific impacts.

We understand that funding for the PPP is to be divided into three pillars:

- H2 production
- H2 transmission and distribution infrastructure
- H2 applications (LDV, HDV, maritime etc)

Next steps

- 24-26 September 2019: EU R&I Days
- 6 November 2019: End of the consultation period.
- 13-15 November 2019: SET-Plan Conference
- 2019-2020: EC preparing first draft work programme
- Q1 2020: Indicative plan for the launch of the Clean Hydrogen Partnership.
- 1 January 2021: Horizon Europe to enter into force

Industrial Strategy – New Industrial Policy

28th June: 'Industry 2030' group publishes 'A Vision for the European Industry until 2030'

The 'Industry 2030' group of experts and corporate leaders published 'A Vision for the European Industry until 2030', on 28th June (see here). This final report is the result of the work carried out by the Industry 2030 high-level industrial roundtable established by the European Commission in December 2017 to provide independent advice on future EU industrial policy.

The content of this Report will be a critical input for the New Industrial Strategy due later this year, which will lead to further legislative action in the years ahead in the fields of climate, energy, transport, technology, finance and sustainability. The input comes alongside other reports such as the Industrial Masterplan under preparation in the HLG ENII.

The report is divided in four main sections: 1) a detailed overview of the Industry 2030 Vision; 2) identification of the existing trends towards 2030 with their subsequent challenges and opportunities; 3) current needs to be addressed and their key drivers of success to achieve the Vision 2030; 4) and a series of recommendations and game-changing actions aimed to help the EU to better manage this transformation.

Note that the Vision 2030, amongst others:

- Identifies insufficient investment in infrastructure as a key challenge. Linked to that, it sees the demand for batteries and hydrogen fuel cells, as well as CCS and CCU technologies to decarbonize energy and the industry, a key opportunity to ensure more investment.
- Identifies decarbonisation of the energy sectors as a precondition for the decarbonisation of industry. Noting as opportunity the benefit from early mover advantage and sustainable innovative technologies.
- Identifies the transition of sectors facing carbon leakage risks a challenge. Noting as opportunity achieving global leadership in renewable energy, energy efficiency and climate neutral technologies.
- Sees as a key driver of success the necessity to mainstream climate considerations into financial markets. Policy needs to internalize climate costs and align costs on carbon and natural resources to the IPCC Recommendations.

Key recommendations include:

- Establish modern strategic infrastructures: Focus on smart grids, demand response, energy storage, networks for hydrogen or synthetic methane, charging an refueling infrastructures for transport. Plus focus on modernization of existing basic infrastructure e.g. energy grids.
- Accelerate the transformation towards climate-neutral, circular and resource-efficient economy by ensuring that the cost of decarbonization measures is fairly distributed among all actors. As well as developing an integrated strategy to increase demand and deployment of technologies.
- Strengthening strategic value chains by amongst others further developing IPCEIs and EU platforms (e.g. Battery Alliance and Plastics Alliance) and creating a new EU governance for strategic value chains.
- Taking global action for EU industrial leadership by amongst others leading on the implementation of the Paris agreement, as well as addressing the whole value chains and not individual sectors.

Next steps

- H2 2019 (tbc): European Parliament own-initiative report on the industrial strategy
- Q4 2019 (tbc): European Commission to publish New Industrial Strategy

Infrastructure – Future Energy Systems in the EU

25th June: Council sets out Conclusions on Future Energy Systems

On 25 June, the Energy Council adopted *'Conclusions on the future of energy systems in the Energy Union to ensure the energy transition and the achievement of energy and climate objectives towards 2030 and beyond'* (see here).

Of particular relevance to the CCS community, the Council:

- Calls for an ambitious long-term strategy by 2020 striving for climate neutrality in line with the Paris Agreement, while taking into account Member States' specificities and the competitiveness of European industry. The text refers to the IPCC Special Report.
- Recognises the EU's ambition for renewable energy and energy efficiency. Takes note that solutions that are based on carbon capture and storage (CCS) and carbon capture and use (CCU) technologies may play a role for decarbonization, especially for the mitigation of process emissions in industry, for the Member States that choose this technology.
- Emphasises the potential of biogas and biomethane as well as the development and deployment of safe and sustainable low-carbon technologies contributing to decarbonization. The production of hydrogen, particularly from renewables, has a potential which needs to be further assessed and explored, with a view to make the best use of the existing EU gas infrastructure in a decarbonized energy system.
- Calls on the importance of ensuring a level playing field across sectors so that the more cost effective and reliable solutions for decarbonization are deployed.
- Calls on the European Commission to undertake an analysis of sector coupling and sector integration technologies, including the production of hydrogen, in particular with regards to regulatory and market barriers and based on this analysis explore possible initiatives regarding the efficient integration and deployment of such technologies and energy carriers.
- Stresses the need to make the energy infrastructure ready to make use of the opportunities offered by modernization and decarbonization, by the growing shares of renewable energy, to evolve into a secure, fit-for purpose, modern, effective, smart and resilient energy system across the EU.
- On infrastructure priorities, the Council calls amongst others for the promotion of the development of infrastructure for E-mobility, renewable and other alternative fuels such as hydrogen, biogas and synthetic fuels. It also calls for an analysis of the role of existing infrastructure in order to secure a cost effective energy transition and avoid lock-in effects and stranded assets.
- Calls on the importance of creating a level-playing field for available and emerging low-carbon technologies and market-based solutions, while emphasising that technologies to be deployed must be reliable, safe, sustainable and environmentally sound.

The Council calls on the Commission to take these principles into account as it develops future policies around the modernization of energy systems in Europe.

Sustainable Finance – Green Taxonomy

18th June: Technical Expert Group releases technical reports on Sustainable Finance

The Technical expert group on sustainable finance (TEG) published three important reports on sustainable finance: a final technical report on EU Taxonomy, a final technical report on EU Green Bond Standard and an interim report on EU climate benchmarks and benchmarks' ESG disclosures.

As part of its Sustainable Finance Action Plan, the European Commission set up the TEG to assist it in developing:

- An EU classification system – the so-called EU Taxonomy – to determine whether an economic activity is environmentally sustainable;
- An EU Green Bond Standard;
- Methodologies for EU climate benchmarks and disclosures for benchmarks; and
- Guidance to improve corporate disclosure of climate-related information.

Of particular relevance, the Taxonomy report sets out the basis for a future EU Taxonomy in legislation. Investors and other potential users of the Taxonomy can already start to understand the implications of the Taxonomy. The report contains:

- Technical screening criteria for 67 activities that can make a substantial contribution to climate change mitigation across the sectors agriculture, forestry, manufacturing, energy, transportation, water and waste, ICT and buildings. Almost all activities have also been assessed for 'significant harm' to other environmental objectives.
- A methodology and worked examples for evaluating substantial contribution to climate change adaptation.
- Guidance and case studies for investors preparing to use the Taxonomy.

It is worth noting that the Taxonomy report excludes investments in new fossil fuel infrastructure, except in conjunction with CCS, as well as investments to improve the efficiency of existing fossil-powered plants which *"ultimately undermine climate mitigation objectives, such as coal-powered electricity generation."*

3rd July: Council Working Party on Financial Services discusses Taxonomy proposal

The Council Working Party on Financial Services met to discuss the Taxonomy proposal, but again failed to reach an agreement on the draft Regulation. This was the first meeting under the Finnish Presidency of the EU Council, for whom this is a priority.

Negotiations will resume at the end of the month and then again in September. The Fins intend to reach a final agreement at the start of December. This means, that trilogue negotiations will not begin until 2020 under the Croatian Council Presidency. It also means that it will be the new Commission leadership which will decide on how to take account of the TEG report as it develops the delegated acts after the Regulation is adopted.

A key obstacle remains the legal form of the technical screening criteria. A number of countries support the Commission's view that these should be legally binding delegated acts, while others — chief among them Germany — oppose the idea of binding criteria. The proposal is to have non-binding guidelines for 18 months, which would become binding via delegated acts after.

The consultation on TEG's report were open until 16th September 2019. The TEG will analyse the responses and advise the Commission on how to take the feedback forward.

Next steps

- Autumn (tbc): EC expected to propose International Platform on Sustainable Finance.
- 10 October 2019: ECOFIN Council
- 8 November 2019: ECOFIN Council
- Q3-Q4/2019 (tbc): Trilogue negotiations on Taxonomy Regulation
- Early-2020: EC to launch public consultation on the Taxonomy

Member State Policy – National Climate and Energy Plans

18th June: Commission releases assessment of the Draft NECPs

The European Commission released the long-awaited assessments of the draft National Energy and Climate Plans (NECPs). This took the form of an umbrella Communication (see here), 28 country-specific recommendations (see here), and annexes that set out the methodology (see here).

It is clear from the Communication that the Commission is not fully satisfied with the draft NECPs, especially when it comes to the level of ambition and substance in some draft plans. It notes amongst others that:

- On decarbonisation: The NECPs are designed to meet the overall 40% GHG reduction goal (ETS sectors), but are insufficient for the non-ETS sectors (transport, agriculture, buildings). Member States need to fill a gap of 2% (as their aggregate only reaches 28% GHG reductions instead of the 30% set out in the Effort Sharing Regulation).
- Renewable energy: There is a gap between national contributions and the 2030 target of at least 32%. It calls on certain Member States to increase their ambitions. It further criticised that many drafts insufficiently address decarbonising industry and how they wish to pursue a coal phase out.
- Energy efficiency: Member States are significantly below sufficient level of contributions. The Commission recommends certain Member States to up their ambitions in this area.
- Energy security: The Commission calls amongst others for more investment in infrastructure, more detailed plans on diversification of gas supply, and greater reflection on energy security risks linked to increasing variable renewable energy generation.
- Internal market: The Commission criticizes Member States for not providing a clearer overview of the existing types of energy subsidies, which should eventually be phased out. It calls for more explicit references to increasing electricity interconnectivity levels.
- R&I: The Commission notes that Member States have to make sure that their R&I policies clearly support technologies which will aid in achieving carbon neutrality, including technologies that can help decarbonize the industry.

Finally, the Commission wholeheartedly notes that the NECPs need to be consistent with the 2050 decarbonisation and make sure that this horizon is discussed. It stresses that Member States should use NECPS as a platform to discuss the five dimensions with businesses, civil society, social partners and local governments.

When it comes to the country-specific recommendations, the Commission asked the countries who mentioned CCS or CCU for clarification on the programmes and funding. For instance, the Commission asked Belgium to set out plans for the necessary CCS/U infrastructure, the process, and the timeline. In the case of Germany, the Commission asked the German government to set out how it would finance specific programmes such as CCS and CCU. Similar points were also made to Ireland, the Netherlands, and the UK.

Next steps

- 17-18 October 2019 (tbc): EU Leaders to finalise the guidance on the long-term strategy
- End-2019 / early-2020 (tbc): Commission to present long-term strategy proposal
- 2-13 December 2019: COP25, Chile
- 31 December 2019: Deadline final NECPs
- 1 January 2020: Deadline Member States' long-term strategies
- 2020: Start Paris Climate Agreement commitments
- By early 2020: EU to communicate long-term strategy to UNFCCC

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