



POSITION OF THE CONFEDERATION OF INDUSTRY OF THE CZECH REPUBLIC ON THE CLIMATE TARGET FOR 2040

Key messages:

- The Confederation of Industry of the Czech Republic recognizes the urgency of addressing the issue of climate change and global warming. We understand that the Commission's Communication is part of the process to achieve climate neutrality for the EU by 2050.
- However, we consider the selected scenario 3 and therefore the proposed reduction target of 90% in 2040 to be unrealistic and extremely costly. The proposed scenario S3 effectively accelerates decarbonization and leaves little room for transformation of industry between 2040 and 2050. Proposed target hence threatens the very existence of many industries and thus the Czech economy. This is due to the high costs of the target; we also do not believe achieving the target is feasible within the proposed timeframe.
- Before further discussion, it is necessary to thoroughly assess the impacts on individual sectors and specific Member States, as the available impact assessment shows that the proposed targets will disproportionately affect energy-intensive industries and thus especially industrial countries such as the Czech Republic. Indeed, the current state of play and the real technological, energy, and infrastructure capacities of the EU, individual Member States and respective economic sectors must be taken into account.
- The evaluation of the scenarios needs to thoroughly consider competitiveness of European industry vis-à-vis industry in third countries. Already today the energy-intensive sectors are experiencing a relocation of production outside the EU. At the same time, imports into EU are increasing. Hence especially energy intensive companies contemplate about the benefits of continuing to invest and do business in the EU. These sectors provide inputs to many other sectors in the economy and are often key to maintaining a basic level of self-sufficiency.
- For 2040, a high degree of flexibility must be set for individual countries. We ask to keep only the main target at the level of emission reductions and not to go down the path of sub-targets for RES, hydrogen, energy savings etc. due to different conditions in each country. Right to choose national energy mix must be preserved. We consider the reduction target as Europe-wide. The regulatory framework for 2040 needs to be considerably simplified and streamlined compared to 2030 framework.
- The 2040 target must be accompanied by an "Industrial Deal" – similar to the US IRA. The European Net Zero Industrial Act (NZIA) is not sufficient. Before introducing new measures and targets, the business environment must first be adjusted to create favorable conditions for new solutions. Also, an adequate public subsidies system must be put in place. In addition to ensuring the physical and

economic availability of energy, feedstock or decarbonization infrastructure, this concerns, for example, further simplifying permitting processes and reducing red tape.

- **For the Czech Republic as an industrial country, irrespective of the level of ambition, sufficient irreversible financial resources must be ensured. We refer in particular to the continuation of the Modernisation Fund (in the same or higher volume of funding available), the possibility to use revenues from EU ETS trade to a maximum extent, the continuation of cohesion funds, the Just Transformation Fund, etc. Given the different conditions in the Member States, purely European instruments such as the Innovation Fund will be far from sufficient.**
- **Europe should accelerate further R&D and investment in capacity and infrastructure related to electricity (including storage), hydrogen, carbon capture, use and storage and other solutions, while ensuring that the whole economy, including industry, benefits from these investments.**
- **The transformation of energy-intensive industries towards climate neutrality is only viable if fair international competition is ensured. The EU should therefore strengthen its policy instruments to ensure a truly equal level playing field for industries, supporting their resilience and open strategic autonomy.**

The Czech Republic, along with other Member States, has committed to achieve net zero carbon emissions by 2050 under the Paris Agreement. We see this Communication and the accompanying impact assessments as the start of a debate on how to achieve this goal. We understand the effort to discuss this important milestone on the road to climate neutrality, namely the ambition for the year 2040. However, this target must not be set without reflecting the current situation, opportunities and risks, and must not lead to a further weakening of the EU's competitiveness or industrialisation. It is the thorough discussion and analysis that must precede the actual agreement on the 2040 target.

A considerable number of legislative changes have been approved in recent years, some of which have not yet even been subject to secondary legislation, and are yet to be transposed by Member States. For this reason, it is not entirely clear at the moment what impact this legislation will have on the competitiveness of the EU and European businesses. The important prerequisites for the significant development of the hydrogen economy and CCS technologies, on which the Commission relies in the context of the proposed 2040 target, are not yet in place. Hence we have strong doubts about the possibility of massive industrial deployment of these new technologies by 2040, as envisaged in scenarios 2 and 3. Therefore, we believe firstly we should finalize the 2030 legislation and conduct an ex-post RIA with regard to EU competitiveness, and only then select the target for 2040.

We appreciate the European Commission's efforts to apply the principle of technological neutrality in proposed decarbonisation solutions, for example we appreciate the explicit mention of nuclear energy. Like the Commission, we see the need to implement new measures in the EU alongside the shift in action on the global stage. The EU must not be left alone in its efforts. In this context, we note that the difference in emissions between scenarios S2 and S3 is 222 Mt CO₂ eq., representing 0.4% of global emissions in 2022.

As can be seen from the EC analytical material accompanying the impact assessment, the third scenario is the most costly. Although only by a few percentages, this outcome depends to a large extent on assumptions about the rate of decline in the prices of the technologies needed for achieving the target. The decision

should therefore take into account, in addition to the absolute level of total costs, the riskiness of the whole scenario in terms of not meeting all assumptions.

Unfortunately, the impacts are only calculated at the EU level. The impact assessment does not address the level of individual Member States and ignores the fact that more industrialised countries will necessarily be hit harder by this policy. Furthermore, the current EC assessment reflects the status of policies and measures as of March 2023. Therefore it does not reflect, inter alia, the national policies and measures that Member States have reflected in draft national energy and climate plans that will not be finalised until the first half of 2024. In conclusion, it does not take into account the potential gap in achieving the 2030 targets. The impact assessment also does not take into account the latest agreements on some policy targets. A specific example is the CO₂ standards for trucks, where the Council and the European Parliament have agreed on a 90% reduction by 2040, but the impact assessment assumes that a 100% reduction is needed by 2040. We consider this approach to be unrealistic.

Europe's energy-intensive industries are exposed to strong international competition. The industry is very sensitive to energy prices and to any increase in investment or regulatory costs or operation expenditures, which are in general much higher in the EU. At the same time, we do not know today whether the CBAM will provide for a sufficient protection for energy intensive companies from carbon leakage – and we have reasonable doubts about it. In this context, we do not see the main justification behind the proposed 90% target – the risk of not meeting the 2050 climate neutrality target – as appropriate. During the period 2040-2050, there is still sufficient space to apply new technological measures and thus to significantly reduce emissions.

Hence, in the policy discussion on the ambition of the 2040 reduction target as well as on the enabling measures envisaged by the Commission, the following must be considered and addressed:

- **Direct and indirect impacts of respective target options on individual sectors and industry subsectors must be evaluated.** There is also a need to assess the impacts on individual Member States - at least on a national level (ideally by the European Commission). The evaluation should take into account the current economic situation.
- As part of the assessment, evaluate the status, needs, and barriers of ongoing, planned, and considered emission reduction projects in each sector, including **technological options and investment cycles**. Assess the possibilities of respective sectors for further emission reductions for the period to 2040/2050.
- Target should allow for a **full use of the 2040-2050 period for decarbonization**. It should respect that the trajectory of emission reductions may not always be linear.
- Evaluate the **feasibility of solutions for carbon capture, storage or utilization and carbon removals in the context of respective countries**, given their high projected costs. Widespread deployment of these technologies is a prerequisite for achieving the proposed 90% target – hence economic feasibility study is needed.
- For CCS, it must be ensured that landlocked countries like the Czech Republic have access to the transport infrastructure for a single CO₂ market. A transport network of about 7300 km is planned by 2030 and an increase to 19,000 km by 2040 could be possible with sufficient financial resources.

However, storage capacities are not yet known, so the feasibility of CCS technologies is hard to be determined.

- **Efforts to meet the target need to be distributed evenly and fairly across respective sectors**, taking into account the starting positions and options in each sector. The revision of the EU ETS after 2030 needs to take into account the impacts on energy-intensive industries in particular, as well as the actual state of play on the market.
- **It must be ensured that redistributive measures are not only introduced for households but also for the industry concerned.** For industrial countries, financial resources such as the Modernisation Fund must continue, the redistribution of allowances to more industrial countries should be reconsidered, etc. These financial programs must take account of the conditions in individual countries.
- Ensure **sufficient European funding for the interconnectivity of energy systems, but also of transport routes in the regions that will be most affected.**
- There is a need to **assess and possibly adjust the current practice in providing national state aid** for decarbonization projects beyond the support from various funds and to limit possibly excessive aid to avoid distorting the EU common market.
- For the **"enabling framework"** we propose not to continue with the existing policies for 2030, especially setting new RES and energy efficiency targets. The 2040 target must be approached fully in line with the principle of technology neutrality – as the Commission rightly states, it shall allow to use all available decarbonization technologies, RES, nuclear, hydrogen, etc. This also applies to individual decarbonization technologies in the end sectors, e.g. heating of buildings. **We propose to keep only emission reduction target.**
- "Bridging instruments" until the technology is commercially available are definitely needed. We appreciate the Commission's emphasis on further improving the investment and regulatory environment. We note, however, that EU legislation itself does not always live up to this intention - a typical example is the recent (6 February) political agreement on the Net Zero Industry Act, where some important shortcuts in the permitting processes were dropped from the original ambitious text. At the same time, NZIA includes additional requirements for the private sector on carbon storage and on co-financing such solutions. There is a need not just to create new requirements, but to actually **adapt the environment in which investments take place.** As part of this, a we need to discuss some specific areas that could be adapted in the existing legal framework (e.g. the lack of restrictions on the export of steel scrap outside the EU under the ESPR, the conditions for RFNBO hydrogen, restrictions under the NZIA, etc.). This is necessary before further measures are adopted.
- There is a need to ensure the maximum use of mechanisms to **protect the competitiveness of sectors at risk of carbon leakage.** Any increase in the target or stricter requirements must go hand in hand with a strengthening of mechanisms to protect the competitiveness of the industry.
- We call for refraining from setting unrealistic targets that do not take into account the geographic possibilities of individual countries (see e.g. the current rules for RNGBO hydrogen, where the mandatory targets are the identical for the whole EU, which does not reflect the different position in

the overall RES targets). Specifically for hydrogen, the rules need to be revised to allow for the use of non-RNGBO hydrogen (typically hydrogen from recycled fuels, nuclear power), etc.

- The EC should **update the scenarios and models used in the impact study immediately after the completion of the process of updating the National Energy and Climate Plans**. For instance, for different scenarios, nuclear power generation does not differ. Yet the rate of construction of nuclear power plants and SMRs will have a major impact on overall emissions.
- At the same time, to build domestic value chains, the EC should certainly consider the nuclear energy value chain, especially if it is planning a strategic partnership for small modular reactors. The construction of nuclear power must be carried out with as much involvement of the domestic industry as possible.
- The EC needs to ensure that **technical assistance programs continue**. The capacity of the public administration needs to be strengthened and technical assistance needs to be used effectively. The new targets will certainly bring with them a further need for analysis and implementation of concrete measures.

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