



# Long-term competitiveness, regulatory certainty and a just transition for workers: Pathways to climate neutrality for the European industry

## Position paper on European industrial policy

The European Union aims to be the first climate-neutral community of states by the year 2050 at the latest. European industry is a key lever for achieving this target but has not yet contributed enough to the necessary reduction in emissions. In 2022, its emissions accounted for around 20 percent of European greenhouse gas emissions.<sup>1</sup> Although there have been reductions in emissions from industry in recent years, these are mainly due to production losses caused by economic developments such as the COVID-19 pandemic or the energy price crisis and are largely not structural in nature. Incentives for emission reduction of industrial processes, particularly in energy-intensive industries, are not yet sufficient and there is a lack of security for planning and investments. Nevertheless, European industry is committed to climate neutrality by 2050 and is gradually making its way there. To ensure the transformation is in line with climate targets, the European industry needs a clear legal framework for decarbonization in accordance with planetary boundaries and high social standards. This endeavor offers enormous opportunities to maintain value creation and living standards in Europe, while also making an international contribution to a democratic and socially just transition.

**As German environmental NGOs, we are calling for the development of a European industrial strategy as part of the European Green Deal with the following core elements:**

### 1. Resource-preserving circular economy at the heart of a European industrial strategy

To date, little attention has been paid to a non-polluting circular economy based on prevention and reuse as a central approach to decarbonizing the industrial sector. Key levers such as reducing resource consumption, for example through closing the product loop in resource- and energy-saving systems, as well as improving material efficiency and use, have been underestimated so far. Similarly, reduction of chemical complexity and elimination of harmful substances, enabling material to be reused in different contexts, have also been overlooked. In addition to a significant emissions reduction potential<sup>2</sup>, these circular economy strategies offer additional benefits: they lead to cost savings through reduced consumption of raw materials and energy<sup>3</sup>, contribute to more resilient supply chains, provide socially just solutions through labor- and

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1 In 2022, 20 % of European greenhouse gas emissions corresponded to around 684 kt CO<sub>2</sub>-eq; European Environmental Agency, Greenhouse gases data viewer (April 2024)  
2 Agora Industrie und Systemiq (2023): „Resilienter Klimaschutz durch eine zirkuläre Wirtschaft. Perspektiven und Potentiale für energieintensive Grundstoffindustrien“; Material Economics, 2018, „The Circular Economy a Powerful Force for Climate Mitigation“  
3 Agora Industrie und Systemiq (2023): „Resilienter Klimaschutz durch eine zirkuläre Wirtschaft. Perspektiven und Potentiale für energieintensive Grundstoffindustrien“

value-intensive approaches, and create regional jobs. In times of increasing geopolitical tensions – also due to resource competition – circular economy practices are an important contribution to European resilience. Therefore, a European industrial strategy should set the framework for a systematic, organized and socially just transformation that enables a resource-efficient mode of production and lifestyle across society, fulfilling societal needs with minimal material and energy input.

**This requires:**

- **A European resource protection law:** Europe needs an EU-wide resource protection law with binding quantitative reductions targets, following the example of the European Climate Law. To create a true circular economy, it is crucial to use transformative and effective policy instruments like environmental taxes, regulatory law and reduction of subsidies. Resource reduction targets, for instance to reduce the absolute consumption of raw materials, lead to the prioritization of such instruments. A resource protection law should also define reduction pathways and rules for monitoring, reporting and verification (so-called MRV approach) of the targets.
- **The consistent implementation of the circular economy principles:** Consideration of the circularity in the context of the industrial transformation is often limited to recycling or waste incineration. However, more energy- and resource-efficient strategies include the prevention, reduction and reuse of materials and products. The consistent implementation of the EU waste hierarchy is crucial for this purpose. Avoidance and reuse must be the priority to minimize resource consumption and waste. This requires clear resource protection, waste prevention and reuse targets, also for the commercial and industrial sectors. Additionally, a swift revision of the EU Waste Framework Directive (WFD) is necessary to keep misleading quota calculations with stricter requirements at bay.
- **A sustainable product policy:** Products and materials must be designed to be environmentally friendly, free of harmful substances, durable, repairable and recyclable in their production, use, and disposal. The EU has laid the foundation for this with the Ecodesign for Sustainable Products Regulation (ESPR). The requirements for all product groups must now be formulated through delegated acts and implemented as quickly as possible. In addition to the EU Battery Passport, other product types must also be equipped with mandatory digital product passports to make environmental impacts visible throughout the product lifecycle. Moreover, the approach of reuse must be scaled up to an industrial level through resource-saving services such as the right to low-cost, manufacturer-independent and high-quality structures for repair, lending and second-hand.

## 2. A financing model for the industrial transformation

The transition to climate neutrality must be understood as an opportunity—also in economic terms—and financed as such. Ensuring the long-term competitiveness and attractiveness of Europe as an industrial location can only be achieved with sustainable and solid funding for climate protection and the transformation. This creates the security needed for crucial investment decisions and allows industry to align predictably with long-term climate targets. Additionally, it establishes a level playing field for companies that have already embarked on the path to climate neutrality and are at a significant disadvantage due to persisting environmentally harmful subsidies. It is a joint task of the industry and both public and private finances to set the course for economic and low-risk investments.

**This requires:**

- **A consistent implementation of the European Emissions Trading System (ETS):** The current CO<sub>2</sub> price level of the ETS is insufficient to drive decarbonization and accelerate industrial investments. So far, the ETS has not had the desired effect as the European lead instrument for reducing CO<sub>2</sub> emissions. To create an effective price signal, the polluter pays principle must be applied consistently by abolishing the allocation of free allowances and transitioning to a full auctioning system for allowances. As part of the review of the EU Carbon Border Adjustment Mechanism (CBAM), the European Commission should

propose a faster phase-out of free allowances. By tightening reporting obligations for member states, accountability and transparency regarding the use of ETS revenues for climate protection measures must be ensured.

- **Creating green lead markets:** Driving the demand for low-emission and circular products requires green lead markets. Public procurement has a pioneering role in this respect, which is currently not being fulfilled. At around 14% of Europe's gross domestic product<sup>4</sup>, the purchasing volume of the public sector can point the way towards a circular and green economy, provided that the criterion of cost-effectiveness, without considering social costs, no longer predominates. Creating green lead markets provides a strong signal and predictability for companies, thus incentivizing the expansion of strategic climate-friendly technologies and circular economy strategies. The learning and scaling effects from increased demand potentially reduce costs for circular and green solutions. The legal basis for implementing Green Public Procurement (GPP) has been established at the European level, for example in the Ecodesign for Sustainable Products Regulation (ESPR) and the Construction Products Regulation (CPR). For private demand, certificates with minimum requirements and greenhouse gas limits, recycling quotas, or a climate and resource tax are suitable.
  
- **European Carbon Contracts for Difference (CCfDs):** Inspired by the German model "Klimaschutzverträge", EU-wide CCfDs are necessary to compensate for the additional costs of climate-friendly production over a defined period until it becomes economically viable. This would protect companies against some transition risks, such as uncertain developments in future input prices or political decisions and provide them with long-term predictability and security for investments. CCfDs should only be awarded to technologies that have a transformative impact and pave the way out of Europe's fossil fuel dependency. Financing European CCfDs should be achieved through a substantial increase of the Just Transition Fund and European own resources. A solidarity compensation mechanism between member states must prevent that only economically stronger states can afford the transformation.
  
- **The integration of the European electricity market:** One of the key levers for the decarbonization of industry is the electrification of processes. For this, a sufficient and secure electricity supply at competitive prices is crucial. The EU should advance the integration of the European electricity market and provide member states with the necessary flexibility to design electricity prices specifically to promote electrification.
  
- **Mobilizing private investments:** Public finances alone cannot support the funding of the social-ecological transformation; massive private investments are required. The fact that private investments in natural gas and nuclear energy are classified as „sustainable“ under the EU Taxonomy undermines the transition to a future-proof and fossil-free economy. Instead, private finance needs to flow into distinctly green and transformative projects. This can be achieved through the consistent implementation and further development of European regulatory initiatives, such as the Corporate Sustainability Reporting Directive (CSRD), the EU Supply Chain Directive (CSDDD), and regulations targeting financial institutions like the Capital Requirements Directive (CRD), the Markets in Financial Instruments Directive (MiFID), the Solvency Regulation, the Sustainable Finance Disclosure Regulation (SFDR), and the Taxonomy Regulation.

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4 European Court of Auditors (2023): "Special report on public procurement in the EU"

### 3. Promotion of business transformation and climate-friendly employment

To successfully navigate the path to a climate-neutral industry, investments and measures of companies must be effective in the long-term and align with the goal of climate neutrality. Transparency in climate protection processes and initiatives of companies is crucial to trace progress and to make sure that investments in technologies and business models can rise to their full potential. This allows to maximize climate benefits throughout the company and along the value chain.

The transformation also offers an opportunity to actively involve and support employees. Timely and comprehensive training can create new, future-proof jobs that meet the requirements of climate-neutral production. This not only ensures employability but also enhances the innovation capacity of companies. A successful transformation process requires well-trained professionals who are familiar with new demands. Therefore, it is important to prepare the workforce at an early stage for upcoming changes and to ensure social security throughout the process. In many cases, employees are also the driving force behind the transformation. This potential must be leveraged through participation and a high degree of collective bargaining coverage.

#### **This requires:**

- **Consistent implementation of binding transition plans:** With the introduction of the Corporate Sustainability Reporting Directive (CSRD) and the EU Supply Chain Directive (CSDDD), companies are required to develop binding and verifiable transition plans with science-based climate and environmental targets. These plans must now be consistently implemented and monitored. The timely creation of such transition plans must involve social partners, should be a prerequisite for any public funding, and serve as a guiding principle for private financing.
- **Jobs and training that contribute to climate protection:** The industrial transformation can become a driver for new climate-friendly jobs. To achieve this, the European Commission should define targets and recommendations for climate-friendly qualifications and employment. To this end, education and training must be geared towards sustainability and climate protection, and funding should be tied to specific training quotas. To mitigate the social impacts of job changes, extensive retraining and upskilling programs should be provided in addition to social benefits without punitive sanctions.

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