Position Paper of EPP Members in the Industry, Research and Energy Committee on the EU Recovery Package

Most relevant files to be adopted/developed until the end of the year: EU Recovery Package & MFF, Horizon Europe, Digital Europe, Connecting Europe Facility, European Climate Law, EU Industrial Strategy, SME Strategy, EU Buildings Directive, InvestEU.

Guiding questions:

1. How to improve prioritisation, coherence and methodology of the EU recovery plan? How to ensure that the funding and priorities for recovery and long-term growth potential are in line across EU policies and really create opportunities for the next generation?
2. How to set the right conditions in the recovery for achieving EU climate targets?
3. How to strengthen support for digital transformation/Digital Deal?
4. How can Europe improve its visibility towards citizens?

1. How to improve prioritisation, coherence and methodology of the EU recovery plan? How to ensure that the funding and priorities for recovery and long-term growth potential are in line across EU policies and really create opportunities for the next generation?

- **EC needs to better prioritise digital transformation**. This priority should be addressed at the same level as decarbonisation. The recovery package lacks a clear plan for a digital recovery, no major political targets are presented and no significant ring-fenced funding is made available (e.g for Digital Europe and CEF). The objectives of the two transitions also need to be looked at separately to ensure as many projects support digital and climate transition.

- **We need to better prioritise research, technology and innovation**. These are the driving forces of our economy and Europe's competitive advantage against Asia and US. A decade ago, Member States agreed that by 2020, public and private sectors combined would invest at least 3% of their GDP in research and innovation. This is not yet the case. If Europe is to excel in fighting COVID 19 and future pandemics, and developing the needed technologies of transformative nature for our green and digital transitions, we need to prioritise the right programmes. Horizon Europe has received very little increase compared to the large number of priorities it is expected to address. In addition, the InvestEU research window has not been increased and its impact remains very limited in terms of R&D, according to the research community.

- **There is currently an inconsistency between EU strategies/targets and the funding and toolbox in place to implement them**. In the recovery package, we have reference to the hydrogen alliance but we lack a clear plan on how to invest in the relevant infrastructure as well as the needed push for Member States to support investments in this area. Another example, measures encouraging electric cars should be linked to policies increasing charging stations, which in return, require projects improving our grids' capacity. **Generally speaking, there is a need to set targets to encourage the necessary energy infrastructure and appropriate capacity building**. We also need the right regulatory framework for market take-up. In the case of decarbonised steel, for example, we need to make sure that if we invest in CO2-free steel production, we are able to find a strong market willing to buy it.

- **In terms of methodology, when assessing the need to adopt new legislative proposals revising existing legislation and policies, the Commission shall take into consideration regulatory consistency** in order to create a favourable environment for future-proof investments. The main climate target discussion (50-55% of CO2 reduction by 2030) is ongoing without a consistent methodology or coordination with the existing regulatory framework and inadequate impact assessment.

- **Fundamentally, we are lacking a methodology that connects all the different initiatives into a functional system**. For instance, while the negotiations on the climate law advance, other pillars of a successful recovery are still lacking. Europe only just started discussing its Industrial or Data Strategies and key funding programmes, such as Horizon Europe, are not yet finalised. This interconnection between EU targets, programmes and strategies is neither addressed in the recovery package nor in general terms.

- **In this context, the ecosystems presented in the EU Industrial Strategy should be treated more prominently as a key component for recovery,** fostering collaboration of all relevant stakeholders. Supporting the ecosystem approach should be a clear assessment criteria for Member States investments under the Recovery and Resilience Facility.

- **We also lack a methodology to boost the needed technology.** Many of the technologies we need to drive forward decarbonisation and digitalisation are yet to be developed. If carbon-free steel plants or carbon-free aviation is to see the light within the next decade, we need to have a concrete plan on how to achieve this. **More generally, the 10-year climate ambition should be embedded in an overall 10-year plan** which defines research, innovation, infrastructure, industry, energy-efficiency and digitalisation targets, which all come together to achieve economic recovery and long-term growth and jobs.

- **Horizon Europe is expected to provide significant contribution to green and digital transformation**. Therefore, coherent funding and timeframe should be reflected in Horizon Europe and in the relevant Joint Undertakings with industry. For example, steel and aeronautics partnerships under Horizon Europe have a 2035 perspective and need to focus further on developing clean technologies at a large industrial scale, which is much needed in order to achieve the ambitious 50-55% target in such reduced period of time.

- **Finally, we need to ensure that funds from the new debt created will be invested properly and create opportunities for the next generation. Only a small part of the €1.1tn package is actually spent at EU level according to long-term goals**. The biggest part of the recovery package will be spent by Member States without much strategic conditionality or visibility. **EC needs to ensure conditionality** is in place and that the priority for investments in Member States is to rebuild our productive capacity and create future-oriented investments, to give also the future generations the possibility to pay back the debt we will transfer to them. We should avoid that EU and national priorities are contradicting each other. EU has prioritised, among others, digital and green transition. This will require significant national investments to make Europe successful.

2. How to set the right conditions in the recovery for achieving EU climate targets?

- **The investment pillar under the Green Deal speaks of €1tn** investment that will be needed over the next 10 years. Most estimates from industry ranged the average additional investment needed between €175-290bn per year until 2030. However, they are based on the current 2030 target of 40%.

Think tanks have calculated that with higher 2030 targets we need at least €300bn additional investment per year over the next decade. **The investment package under the Green Deal of €1tn therefore covers 1/3 of what is actually needed. The proposed funding is not enough to achieve the climate law ambitions and at the same time risks diminishing other EU priorities such as digitalisation.**

- Instead of tinkering around the margins, the **EU should focus on transformational technologies and could establish a positive list of investment goals under the recovery plan**, as for example, go big on low-carbon infrastructure, energy storage, efficient buildings, and lead markets to boost demand for climate-neutral industry. Leveraging effects should be mainly directed towards sustainable infrastructure investments (energy networks), modern social projects (cross-border health infrastructure, epidemic management etc.) or in the conversion of industrial production processes to hydrogen and green electricity.

- **The new strategy for energy system integration**, expected on 8 July 2020, in synergy with a new dedicated strategy on hydrogen in Europe, should present the foundation for the decarbonised European energy system of the future. Given the cross-country nature of both strategies, they should establish guiding principles for spending under the recovery plan.

EXAMPLES

Hydrogen

- Hydrogen will play an essential part in a cost-effective pathway to decarbonise energy-intensive industry sectors and to achieve climate neutrality by 2050. The recovery plan rightly establishes a hydrogen alliance, which, however, focusses on capacity building mainly. This needs to be linked with investment into the necessary infrastructure, old and new, and the revision of the Trans-European Energy-Networks (TEN-E) guidelines. Only a European approach can ensure that the current and future gas infrastructure is able to promote hydrogen to the necessary level. The hydrogen strategy needs to clarify the transition role that hydrogen from natural gas can play in order to kick-start market up-take.
- A clear governance structure is needed to ensure that all policy instruments work consistently, from financial support funds (Recovery Fund, JTF, TEN-E, InvestEU, CEF, Taxonomy), to the regulatory framework (definition of clean hydrogen and parameters in sectoral legislation such as the renovation wave, CCU/CCS).

Building sector

- We are convinced that the renovation wave can mitigate the impact of the COVID-19 crisis, by stimulating national and local economies. It will foster high-quality and essential jobs in the construction and renewable energy industries, supporting micro and SMEs workers that make up 97% of the sector and ultimately triggering opportunities and benefits through improved energy efficiency in the European building stock.
- The EU should ensure that the recovery fund dedicates amounts for energy efficiency and building renovations, with clear conditions and timeframes, including technical assistance to ensure adequate absorption rates. The InvestEU sustainable infrastructure window should prioritise funding for energy efficiency of buildings.
- In the context of the COVID-19 recovery, and its impact on public and private finances, financing schemes should incentivise and prioritise deep, including staged-deep, renovations aiming at 2050 climate neutrality targets, with adequate incentives as well as targets to achieve a highly energy efficient and decarbonised building stock. This should be a precondition for institutional investors to consider building renovations as sustainable long-term investments.

Cultural and creative industries

- While CCIs have shown greater resilience than other sectors in the aftermath of the 2008 crisis, the sector has been severely hit by the COVID19 crisis. More than 12 million Europeans work in the cultural and creative industries, accounting for 7.5% of the active population in Europe.
- CCIs play a key role in the preservation and promotion of European cultural and linguistic diversity, strengthen the sense of belonging to the European and regional identity, contribute to transmit knowledge and values, and safeguard the tangible and intangible European heritage for current and future generations. At the same time, they are a concrete tool for social cohesion, through their important contribution to the EU economy in terms of employment, investment, growth, and innovation and contribute significantly to Europe's competitiveness on a global scale.
- A successful recovery will need to also ensure access to funding for CCIs (in particular regarding the funding of Creative Europe and the Creative Cluster within Horizon Europe). The European Commission should draft guidelines for the Member States to encourage the use of recovery funds for the cultural and creative industries (and not only traditional industries). This should be complemented by concrete measures to encourage a favourable regulatory environment for the sector and Europe's creators.

Chemicals sector

- Many chemical companies have set ambitious targets, estimating that some could be climate-neutral by 2030 or 2050. From a purely technical point of view, it would be possible to make the German chemical industry climate neutral by 2050. However, companies will have to invest billions of euros in new process technology, for example.
- Most large-scale plants in the chemical industry are running with oil and gas. A switch to renewable energy would require large and stable quantities of green electricity at low prices.
- Important elements in the EU Green Deal include the promotion of the circular economy and the implementation of the EU Buildings Directive. Member States should develop a clear plan, with clear targets and commitment to boost investment in these areas.

Steel sector

- Some major companies estimated that a move towards 50%-55% of CO2 emissions reduction could increase their total costs by 25%-40%.
- The COVID 19 crisis has already caused the shutdown of industries using steel, lowering steel demand by over 50%. Many companies estimate reduction in production of close to 40%. In terms of impact on jobs, it was estimated that 41% of the workforce is affected by temporarily lay-offs and reduced working.
- The recovery plan should back up and promote national funding **into CO2-free steel plants** in Member States and foster investment into hydrogen transport infrastructure for CO2-free steel plants and other industry clusters.

Automotive sector

- The recovery plan mentions that the Connecting Europe Facility, InvestEU and other funds will support the installation of one million charging points, clean fleet renewals by cities and companies, sustainable transport infrastructure and enable the shift to clean urban mobility.
- However, the automotive industry is pointing out that there is a major discrepancy between the CO2 reduction target and the estimated need for re-fuelling and charging infrastructure in the EU. The benchmarks that were set for the volume of zero- and low-emission vehicles are also too ambitious (2025: 15% benchmark for cars, 2030: 35% benchmark for cars). According to the Commission's own calculations, roughly 2.8 million charging points would be needed to reach the 35% benchmark in 2030. This represents an increase by a factor of around 15 compared to the 165,000 charging points currently available across the EU.
- It was estimated by some companies that, currently, zero-emission vehicles are being produced at a loss in the EU and their market uptake is very

modest, at 2% of sales in 2019, due to cost and a severely lacking charging infrastructure in Member States. Fleet renewal schemes focusing only on electric vehicles will not significantly increase market uptake quickly enough.

Aeronautics sector

- The growth rate of aviation traffic worldwide is approximately two to three times higher than the aviation's efficiency increase, due to new and enhanced technologies. This means that despite the significant yearly efficiency gains from the industry of 1.5 to 2.0% per annum, the absolute emissions are increasing due to much higher traffic growth.
- The research effort needed to meet the current climate goals within the Horizon Europe timeframe is likely to exceed €12bn, with several times this amount in private sector investment thereafter. This would require an increase in funding for aeronautics R&I under Horizon Europe to at least €4bn to cover the Clean Aviation Partnership's demonstration programme (compared to the current €2.3bn).
- To achieve the timely impact, an integrated programme approach is needed where the promising emerging technologies from 'upstream' research can be assessed and integrated into industry-led high-TRL integrated demonstrators.
- Solvency support actions for the aviation sector need to take into account EU energy and climate goals.

SMEs

- There is a need for better recognition of the **essential role of innovative SMEs, start-ups and scale-ups**, especially the not-yet-trading (and generating revenue) innovative ones. There should be more targeted measures in forms of increased EU financial support programmes, increased leverage on equity or loan matching funds. In addition, a commitment to support start-up incubators, business innovation centres, science/technology parks is required to boost the economy.

3. How to strengthen support for digital transformation/Digital Deal?

- **The investment needs to pursue digital transformation are about €125bn per year.** The crisis has shown a two class-society: those with sufficient connectivity and those without. The industry estimates the minimum for a functional connectivity at home is 50MBPS. However, 50% of all households in the EU still only have 30MBPS or less. The EU target is to achieve 100 Mbps by 2025.

- The EC formulated the following targets:
  - All European households, rural or urban, should have access to at least 100 Mbps, which can be upgraded to 1 Gigabit,
  - All schools, transport hubs and main providers of public services and digitally intensive enterprises should have access to 1 Gigabit of data per second internet connection,
  - All urban areas and major roads and railways should have uninterrupted 5G wireless broadband coverage, starting with fully-fledged commercial service in at least one major city in each EU member state already by 2020.

- **However, those targets are not binding. In addition, the European Commission has estimated that it will cost at least €500bn to meet its 2025 connectivity targets.** Today, Europe's average investment in 5G and fiber per citizen is €89 in against €213 in the US.

- Financial instruments to achieve these targets are mainly InvestEU, CEF digital, Digital Europe Programme (€8.2bn), a 5G PPP (€130Mio in H2020) and WIFI4EU, a 3 year programme 2018 - 2020 with a total budget of €120Mio. The recovery plan proposed an increase to CEF by €1.5bn but drastically reduces the commitments for the digital pillar by 31%.

- **It will be impossible to fund significant capabilities with such small budget**. For example: the Digital Europe foresees €2.4bn for super-computing, €2.2bn for AI including European data spaces, €1.8bn for cybersecurity including for the Cybersecurity Competence centre and quantum communication infrastructure, €600Mio for digital skills, €1.2bn for spreading the use of digital technology across economy and society.

- There is a strong necessity to advance on **effective e-government** at all levels – local, regional, national, cross border, so citizens and businesses can request/participate/perform public services completely online (the eID revision could play an important role).

- **Development of telecom network, digital transformation of "traditional sectors**" (manufacturing & SMEs in particular) and public administration (healthcare & education in particular) are of key importance. For instance, the COVID-19 crisis showed the important role 3D-printing can play and should be further supported. Given some industries' transversal role supporting the competitiveness and technology, success will depend on a strong governance for ecosystems.

- To boost our digital transformation, the Commission needs to put in place concrete measures and binding targets:
    - Financial Support for the **game-changer investment to roll-out 5G and fast broadband connectivity effectively.** This can include encouraging Member States to define investment conditions for spectrum auctions, reviewing and removing unnecessary regulation, ensuring adequate EU competition oversight. These investments need to ensure EU visibility.
    - For the data economy to take off, the new Data Strategy needs to strengthen data labelling, curation, data security;
    - Ambitious policy targets for traditional sectors and public administration to digitise by 2025 (e-Government);
    - Streamlined policies to ensure our diverse manufacturing sector digitalises (e.g. funding for manufacturers to take up IoT, 5G and other key technologies);
    - **Financial support for SMEs** to take-up latest forms of connectivity, including 5G, fibre and cloud-based services. This could include among other direct help (e.g. vouchers) to replace equipment and upgrade skills of labour force and/or tax incentives for SMEs to digitalise, help set up home offices for their employees.

4. How can Europe improve its visibility towards citizens?

- **We also need to worry about Europe's visibility**. What type of investments could we prioritise that will ensure the visibility of Europe to it citizens? The recovery plan does not provide a standpoint on this issue. For example, the Juncker Plan is not in the collective memory, neither in general terms nor in terms of practical examples. If the recovery plan fails to achieve this, there will not be a second chance in our generation.

- **By providing Member States with significant funding with too little conditionality**, it risks diverting funds from areas with higher economic and social impact which would give the EU greater visibility.

- **Examples for greater visibility**: free wifi for all, 100% EU municipalities to offer 100% of their services online; 100% of EU doctors to provide e-prescriptions, all cars to be connected cars, first long-haul electric airplane, first CO2-free steel plant…