Dear European Commission,

Over the past decades, European governments and companies have made significant strides in making industry more sustainable. Through combined efforts, the production of renewable energy has increased, energy efficiency has improved, anad there has been a strong focus on the development and growth of cleaner technology. However, the pace of the transition has recently slowed significantly: investments are drying up, and some companies are even closing down. This holds true for big existing companies as well as for innovative start-ups and scaleups.

The years ahead will be decisive for Europe's industrial sector. By 2040, emission allowances will have run out and European industry is expected to reach zero emissions. Without intervention, Europe is heading towards an industrial exodus without any winners. This is happening at a time where we should pursue an industrial transformation. In order to turn the tide, a powerful response that gets investments flowing again must be found in the coming years. The term of the new European Commission offers an opportunity to provide such a response.

Draghi's report calls for a "joint decarbonization and competitiveness plan". With this letter, we – a broad coalition of industry associations, network organisations, knowledge institutions, NGOs and companies – acknowledge this. To drive industry investments, we urge the European Commission to put demand creation high on the agenda of the Clean Industrial Deal, Circular Economy Act and Industrial Decarbonisation Accelerator Act.

Call for Demand Creation

While industries aim to increase sustainability, they lack customers for the cleaner products they can and want to make. The European industrial sector is in dire straits and, without intervention, an industrial exodus is looming, which means production and innovation will relocate outside of Europe. We therefore urge the new European Commission to boost investments by focusing on demand creation. Demand creation means creating European markets near the end of value chains for cleaner industrial products. This will give European companies better prospects to invest in these products, allow Europe to retain a degree of autonomy and enable energy and raw material transitions to accelerate.

European industrial emissions have dropped by 35% since 1990. While this is a good start, it also means that the remaining 65% reduction must be found in the next 15 years, before emission allowances run out. To make this transition possible, major investments are needed to ensure that existing companies reduce emissions while new value chains are also developed.

Investing in Europe was once the most normal thing in the world. Europe represents a huge market with ample knowledge, capital and excellent facilities. In recent years, however, its competitive position for industrial investment has started to crumble. Energy costs have risen sharply, labour is scarce and, on top of that, European markets are increasingly flooded by cheaper products from other parts of the world.

Low prices benefit consumers and Europe should therefore never close its doors to products that can be made better and cheaper elsewhere. At the same time, Europe should also not become completely reliant on non-EU manufacturing. After all, such reliance also has a price, especially when supplies decrease. We experienced this recently when the supply of natural gas from Russia stopped and when semiconductors, face masks and grain became scarce on the global market. In addition, many jobs, knowledge, skills and capital are lost with the departure of industrial companies and the stagnation of innovative ventures, all of which are essential in the energy and raw materials transition.

Currently, European companies can rarely improve their competitive position by investing in sustainability. This is because, barring exceptions, investments in cleaner technology increase production costs and selling prices. As a result, sustainable frontrunners in particular are pricing themselves out of the market, leaving the European industry stuck. In other words the industry's existing business model is already under pressure, while it is also no longer able to pay the (high) additional costs of sustainability out of its own pocket.

To provide a more level playing field for investments by energy-intensive companies, Europe has introduced a Carbon Border Adjustment Mechanism (CBAM). This requires non-EU producers, if they want to supply the European market, to pay CO_2 costs at the border. While CBAM is welcomed, it is not a comprehensive solution. CBAM only corrects differences in CO_2 costs at the European border for imports to Europe. However, CBAM does not correct CO_2 costs for European companies exporting to countries outside the EU, nor does CBAM cover differences in policy, energy and other costs that put European industry at a disadvantage.

In addition, semi-finished and finished products are generally not covered by CBAM. For instance, CBAM does charge a CO_2 price at the border for steel and, in the near future, synthetics and plastics entering Europe in bulk by sea. CBAM does not charge a CO_2 price if those same materials are processed in finished products such as cars, furniture or toys. In this way, Europe risks losing not just its basic industry, but entire value chains. After all, consumers will still have a much cheaper alternative – yet possibly produced in a more polluting way – available in stores.

The big question is therefore: how? How can Europe maintain a degree of industrial autonomy while simultaneously achieving decarbonization? What is the way to link industrial policy and climate policy? How can European companies gain new perspectives, precisely by investing in cleaner technology?

As signatories of this Call for Demand Creation, we believe that in addition to CO_2 pricing through ETS and CBAM, we will need to focus on demand creation to achieve new investment prospects.

Essentially, demand creation is about creating markets for cleaner industrial products by introducing offtake mandates near the end of value chains. Demand creation is not new, and is already being applied successfully. A good example is gasoline (E10). Gasoline suppliers are required to purchase certified sustainable fuels for 10% of supplied volumes. This obligation resulting from the Renewable Energy Directive has created a high demand for biofuels, triggering investments in production.

The additional cost of a cleaner product is not covered by subsidies but is part of the product price as a result of this requirement. In turn, investors get a market-based compensation for manufacturing a more expensive but less carbon-intensive product.

This type of demand creation is currently non-existent for most industrial products. By building on the example of E10 and introducing demand creation at the end of the value-chains of many more industrial products, investments can get going again. This could, for example, include markets for cleaner-produced plastics, synthetics, rubber, steel and several building materials and fuels. Demand creation through both public tenders and the private market is key.

To attract investments in Europe, companies need a level playing field. Without a level playing field or a requirement for European content, newly created markets risk being entirely filled through cheaper production from outside the EU. However, if Europe requires a share of European content, we aim for a strong compromise: sustainable products at the lowest possible cost, while retaining control over sustainability, earning capacity, innovation and autonomy.

The process of setting up new policies and projects is typically time-consuming. However, with 15 years to go until emission allowances for industry run out, there is no time to lose.

We therefore urge the European Commission to put demand creation high on the agenda. Of course we are open to further discuss and provide suggestions on how demand creation can become a reality. In this way, with combined efforts we can also shape the next phase of Europe' energy and resource transition.

Yours sincerely,

CENTRE FOR INTERNATIONAL ENERGY POLICY | CIEP

EBU Economic Board Utrecht Region

NATUUR & MILIEU

EBZ Economic Board Zuid-Holland

NedZero Brancheverenging voor windenergie

chemelot for today's future

Deltalinqs

MISSION POSSIBLE PARTNERSHIP

Platform Hernieuwbare Brandstoffen.

BLUE CIRCLE OLEFINS

RBCN Rotterdam Biomass Commodities Network

smart delta resources nl

GROENE CHEMIE NIEUWE ECONOMIE

PLATFORM BIO ECONOMIE

BIOMASSA FEITEN

ZERO CERTIFIED

KOMERCON

BIOGROWTH DEVELOPMENT

TWINNOVATE

VOLTH2

Holland Solar

ENERGYNEST

SYCLUS

bp

NEDMAG World of Magnesium

ORGANİKKİMYA

VNO NCW BRABANT ZEELAND

UPM The Biofore Company

HyTrucks

Platform Groen Gas

AnQore

Corbion

ECONOMIC BOARD ZEELAND SAMEN ZEELAND IN STROOMVERSNELLING HOUDEN

Glastuinbouw Nederland morgen groeit vandaag

attero energiek met milieu

KWI

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Dutch Waste Management Association Partner in the circular economy

aeb amsterdam

SPINNING JENNY sustainable yarn

Twence Afval en energie

Vereniging Nederlandse Glasfabrikanten vng

Amsterdam Chemistry Network

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