Toward a resilient Europe: championing a sustainable and digital transition

Schneider Electric's policy recommendations 2024-2029

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Life Is On Schneider Electric

Foreword

Schneider Electric is a global industrial technology powerhouse leading the digital transformation of energy management and industrial automation. We develop products, systems, software, and services that enable households, companies, buildings, data centers, infrastructure, and entire industries to become more electric and digital, more energy efficient, and more resilient.

Our purpose is to empower all to make the most of our energy and resources, bridging progress and sustainability for all. As a global company, Schneider Electric is a strong supporter of the European Union's continued development. Through our products, software, and culture we contribute to a European Union (EU) that is less vulnerable to external energy-related disruptions, that consciously optimizes the use of our energy and resources, and that accelerates the twin green and digital transition.

At Schneider, we have all experienced the diverse and tangible benefits of choosing sustainability and digitalization. It is not an either/or situation — but rather about creating a better, healthier, more competitive, and innovative Europe. It is also about making the EU more resilient against the multi-faceted crisis of the coming years.

With this paper, we share our views and our ideas about how the EU could address some of these challenges at a time of renewal for many of its institutions.

The State of the Union

The EU is facing parallel crises.

Over the last five years, the European Union Commission, together with member states, has driven an ambitious decarbonization policy, culminating in the Green Deal, the Fit for 55, and Repower EU legislations, with the target to become the first carbon-neutral continent in the world.

At the same time, the EU faced significant crises. The COVID-19 pandemic tested the EU's stability and cohesion, and the war in Ukraine has now reintroduced large-scale conventional conflicts on the borders of the EU. Despite a rebound following the pandemic, the economic situation has now worsened from the combined effects of lower economic growth and inflation. In the last five years, the economic growth for the EU has, on average, been 1% lower than that of the U.S. The long-term projection for the EU (2028) is around 0.8% below that of the U.S. as well[1]. In recent years, the productivity of the zone has deteriorated; the productivity gap with the U.S. has reached 0.8% on average for the last 10 years.

One reason for this is the evolution of energy prices across the zone. They have significantly increased during the last few years, and even if they have now recovered from their peak in 2022, the price of natural gas in the EU is still about five times that of the U.S., and about three times above 2019 levels[2].

War in Ukraine has had a detrimental impact due to the EU's dependency on third countries. The energy import bill soared in 2021-2024 versus 2015-2020, meaning that well over 600 billion euros that could have been spent by European countries on the energy transition will be used to finance fossil fuel imports at inflated prices. This is almost equivalent to the entire EU energy import bill of 2022, the entire cost of deploying grids in the EU to meet the 2030 target, or three times the 2023 EU defense spending.

The EU thus faces a combination of three challenges when it comes to energy: energy security (exemplified by the war in Ukraine), industrial competitiveness (building on affordable energy resources and innovation), and decarbonization. These issues have one thing in common: the EU's dependence on imported fossil fuels.

The EU has the potential to come out on top through a stronger focus on demand-side management.

Solving this energy trilemma requires an acceleration toward a modern economy, one that builds on dominant 21st century technologies: electricity and digital. This is less of a "supply" issue – the prevailing lens for energy transitions – but rather a "demand" issue. Today, much of our infrastructure is not optimizing its energy usage. For example, nearly 75% of the building stock in Europe is not energy efficient, with only about 1% undergoing renovation each year[3].

[1] IMF. (2023). World Economic Outlook Update. Moderating Inflation and Steady Growth Open Path to Soft Landing. International Monetary Fund. https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024#Projections

[2] Statista. (2024). Monthly prices for natural gas in the United States and Europe from January 2014 to December 2023. https://www.statista.com/statistics/673333/monthly-prices-for-natural-gas-in-the-united-states-and-europe/

[3] Source :: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings_en

There is much more we can do to optimize how energy is consumed in the first place. This demand-side of the energy equation is a powerful lever, and one that deserves much more action and attention than it is currently getting.

Electrification and digitalization will be essential in an accelerated transition from fossil fuels toward sustainable, affordable and secure energy resources, from a demand-side perspective.

With the Green Deal, the European Union has developed the right framework to address the energy trilemma. But the renewed EU institutions must ensure stronger linkage between competitiveness and the 'green' transformation of society on one hand, and on a stronger focus on the demand-side management of the energy sector on the other hand. To these institutions, we propose three main priorities, in order to achieve these objectives and make Europe more resilient.

Accelerating the energy transition. This is the most important way to remove the current dependency of the EU on fossil fuels and accelerate the penetration of affordable low-carbon sources of energies. The Green Deal is bringing the EU on the right track as it accelerates the energy transition. But more action is needed to unleash the power of electrification on the demand-side. Across all sectors of economic activity, research suggests that, with current technologies available at scale, the share of electricity in the EU mix could already more than double to reach 50%. Buildings, industry and the distribution grids are where we should start[4].

Prioritizing digital transformation. The digitalization of the global economy is underway, but the EU is lagging behind the two current powerhouses of the world: the U.S. and China. Digitalization can, however, support the development of many new economic activities and the decarbonization and resilience of the EU energy system, notably by enabling advanced forms of energy efficiency and the ramp-up of circularity at scale. Digital transformation of industry and of infrastructure must become a core policy of the EU as a way to combine sustainability and digitization. We also need to ensure a level playing field in how we implement the exiting policy framework around digital.

Consolidating the sustainability policy framework. By choosing sustainability we are not just limiting the effects of global warming. We are building a healthier society, with less pollution, better workplaces, and higher-quality homes. We are creating greater comfort, convenience, and efficiency in our daily lives, as well as new jobs[5], more security, stability, and resilience. This results in greater prosperity for all[6]. It is crucial to challenge the narrative that sustainability is a luxury or impediment. By spotlighting the widespread and successful adoption of these advancements, we can instill confidence and drive collective progress.

[4] Schneider Electric. (2022). Road to a rapid transition to energy security in Europe. Schneider Electric Sustainability Research Institute. https://www.se.com/ww/en/insights/sustainability/sustainability-research-institute/road-to-a-rapid-transition-to-sustainable-energy-security-in-europe.jsp?stream=sustainability-research-institute

[5] Schneider Electric. (2022b). Towards net-zero buildings: A quantitative study. Schneider Electric Sustainability Research Institute. https://www.se.com/ww/en/insights/sustainability/sustainability-research-institute/towards-net-zero-buildings-a-quantitative-study.jsp

[6] Sovacool, B. K., Evensen, D., Kwan, T. A., & Petit, V. (2023). Building a green future: Examining the job creation potential of electricity, heating, and storage in low-carbon buildings. The Electricity Journal, 36(5), 107274. https://doi.org/https://doi.org/10.1016/j.tej.2023.107274

The EU is home to some of the most prominent industrial champions in these fields, as well as their local R&D and manufacturing capacities. It also benefits from a significant pipeline of engineering skills through its upper-graduate education system. The EU has thus all the tools it needs to solve the energy trilemma.

The EU needs to accelerate low-carbon and digital investment to improve its resilience.

Summary of Policy Recommendations

1. Accelerating the energy transition

- **Electrification package: security of supply through digitalization and electrification of end use**
  - Target for electrification at end-use level
  - Program to accelerate SME electrification and digitalization
  - Roadmap to align taxation across Member States
- **Infrastructure, flexibility, and digitalization**
  - Build on the Electricity Market Design
  - Reform price formation
  - Build on the EU Grid Action Plan
- **Fit For 55 package: Focus on the building sector**
  - Renovation of non-residential buildings as a priority
  - Digitalization of the building sector

2. Prioritizing digital transformation

- **Accelerate the uptake of digital and responsible AI**
  - Launch a data space for sustainable AI
  - Develop a European AI Codes of Conduct
  - Provide guidance and training for responsible AI adoption, as well as investment
- **Industry 5.0 to drive productivity, resilience, and sustainability**
  - Establish a masterplan to spur industry transformation
  - Promote a “Digital European Society”
  - Develop common metrics to measure impact of digital
- **Consolidate the digital policy framework**
  - Focus on implementation
  - Address complexity by clarifying the interplay between the various regulatory files
  - Reaffirm commitment to global alignment
  - Recognize and use existing international cybersecurity standards in the European standardization processes
  - Increase transatlantic engagement
  - Develop mutual recognition schemes

3. Consolidating the sustainability policy framework

- **EU Taxonomy**
  - New governance and agility to match ambition
  - Tackling the usability of criteria

- **CSRD:**
  - Reduce the number of material topics or data points
  - Improve standards for auditing sustainability information and oversight of auditing practices
  - Promote double-materiality approach beyond Europe
- **Environment and circularity**
  - Close collaboration with industry on the development of a Digital Product Passport
  - Differentiated and industry-specific approach to Substances per- et polyfluoroalkylées (PFAS)restriction
  - Proceed with REACH review

1. Accelerating the energy transition

The European Green Deal is putting the EU on the right track by accelerating the energy transition. The challenge for the EU is deploying low-carbon technologies quickly and widely enough to reduce its energy dependency.

Less is more. Decarbonization and digitalization of the economy are two critical levers for Europe to regain competitiveness and ensure security. The critical issue is to ensure demand from energy users considering the increasing amount of zero-carbon electricity supply. Available technologies hold the promise of slashing emissions by a remarkable 70%. Of this, 55% is related to the demand side[7], a fact often overlooked. We could reduce these emissions by, for example, implementing digital building and power management solutions in existing office buildings. This can reduce energy consumption and operational carbon emissions by about 30%, with a payback period of less than three years[8].

In Europe, we see three main priorities to accelerate the energy transition. The first is an electrification strategy focusing on demand-side management and digitalization. The second is prioritizing infrastructure flexibility and the digitalization. The third is realizing the ambition of recent energy and climate measures agreed by the EU institutions, especially in the building sector, the biggest sector for energy consumption, with tremendous growth and innovation potential.

1.1. Electrification Package: security of supply through electrification of end-use and digitization

Existing technologies available at scale could increase the share of electricity in the energy mix from 20% to 50% and reduce the demand for fossil fuels by 50%. Both the International Energy Agency (IEA) and the EU Commission identify renewable energy and energy efficiency as replacements for fossil fuels. Electrification combines both. Most of the renewable supply sources are coming from electricity.

Electrification also provides energy efficiency both through reduced losses and end-point gains. Currently, two-third of the world's energy is lost in the energy conversion process, happening between the energy generation and the end-use consumption phase. 78% of industrial energy demand is electrifiable with already established technologies, while 99% electrification can be achieved with the addition of technologies currently under development[9].

The combined deployment of electrification and distributed renewable energy in buildings would reduce annual costs for occupants by 15-80% in commercial buildings and 60-90% in residential buildings, with very short return on investment times[10], while creating over 1 million jobs in Europe[11].

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[7] Source : https://blog.se.com/energy-management-energy-efficiency/2023/03/28/net-zero-pledges-need-far-more-than-hollow-commitment/

[8] Schneider Electric (2021). Cracking the energy efficiency case in buildings. eider Electric Sustainability Research Institute. https://www.se.com/ww/en/insights/sustainability/sustainability-research-institute/ssr-ee-paper.jsp

[9] "The CO2 reduction potential for the European industry via direct electrification of heat supply (power-to-heat)" by Madeddu et al.

[10] Schneider Electric™ Sustainability Research Institute. Buildings quantitative study (April 2024)

[11] Sovacool, Evenesen, Kwan, Petit (2023). Building a green future: Examining the job creation potential of electricity, heating, and storage in low-carbon buildings. Electricity Journal. https://doi.org/10.1016/j.tej.2023.107274

Our proposal

An Electrification Package, including:

- **A target for electrification at end-use level:** A 35% electrification target at end-use level for 2030 and accompanying sectoral targets with predictable phase-out dates. We need to ensure a virtuous cycle between Europe's electrification demand and its electrification offer and champions.
- **A programme to accelerate SME electrification and digitalization**: Previous efforts have rightly prioritized energy-intensive industries. Just 11% of European MSMEs have implemented a structured decarbonization plan. Now, we must turn to the heart of Europe's industrial sector: light industries and medium enterprises, which hold great potential to gain competitiveness through digitalization and electrification. For this purpose, we need a massive incentive plan for SMEs at the EU level.
- **A roadmap to align taxation**: Most EU countries tax electricity at a higher rate than competing fossil fuels, driving the prices up to four times higher per unit of energy delivered on average[12]. Electricity must be allowed to be competitive. At a minimum, the Energy Taxation Directive must end subsidies on fossil fuels. The Emission Trading Scheme II must be swiftly implemented to correct the unfair singling out of electricity for carbon taxation.

1.2. Infrastructure flexibility and digitalization

Grid investment and flexibility are two bottlenecks of the energy transition. By 2030, Europe will see around 50 to 60 million heat pumps, 65 to 70 million electric vehicles (EVs) and over 600 gigawatts of additional renewable capacity, 70% of which will be in the distribution grid[13].

The European Commission Joint Research Center calculated that flexibility solutions need to grow by a factor of two before the end of the decade[14]. Similarly, most of the stakeholders are calling to double the electricity grid investment by 2030, with a strong focus on distribution grids (about two thirds of the overall investment to be done at distribution grid level)[15].

Electricity grids must adapt to a more decentralized, digitalized, and flexible electricity system with millions of rooftop solar panels and local energy communities sharing resources. Enabling behind-the-meter clean energy asset deployment will allow society to advance a more efficient and resilient energy transition.

[12] *Schneider Electric (2021b). Building Heat Decarbonization.* Sustainability Research Institute. https://www.se.com/ww/en/insights/sustainability/sustainability-research-institute/building-heat-decaronization.jsp

[13] https://www.eurelectric.org/news/grid_capacity
[14] https://publications.jrc.ec.europa.eu/repository/handle/JRC130519
[15] https://electrification-alliance.eu/

Our proposals

- **Build on the Electricity Market Design**: the 2024 revision of the Electricity Market Design (EMD) was an immediate response to the crisis, which went in the right direction, the next mandate would have both the time and momentum to go deeper and expand on the need to further improve grid investment and flexibility. Peak shaving, energy sharing, submetering, and national targets for flexibility and storage are all positive developments that can go further.
- **Reform price formation**: Europe must assess trade-offs between all available price models to best support local flexibility. This may include structural changes to local price formation such as dedicated locational signals or a full change to locational marginal pricing. From a retailer price perspective, electricity consumption can be cheaper if flexible, but that requires time-of-use tariffs. These would have a beneficial effect on both building heat electrification and on smart EV charging.
- **Build on the Grid Action Plan:** The Commission's 2023 Grid Action Plan will fall on the next institutions to implement it. In particular, the EU institutions must promote distributed generation. The potential of distributed generation is huge, both in buildings and industry. Bloomberg calculates that Europe's rooftops could provide the equivalent of a quarter of Europe's current electricity consumption[16]. With currently 140GW of installed capacity, the potential could be beyond 1,000GW[17]. Regulators must encourage this, including through network planning, easier connections, and measures to operate off-grid for multiple hours, in the case of critical buildings like hospitals.

1.3 Fit For 55 package: focus on delivery: Focusing in the building sector

The past mandate has been one of unprecedented ambition, distributing the targets of the European Green Deal into nearly all aspects of economic life via the legislation of the "Fit For 55" package. This approved legislation must now deliver on the ground. One of the most challenging areas is the decarbonization of the building sector. 75% of building stock must be retrofitted by 2050, while the average energy renovation rate today is at about 1%[18]. Buildings represent 40% of energy consumption and thus require close attention. The Fit for 55 package has developed several tools to at least triple the renovation rate, **but** we must ensure public and private stakeholders are working hand in hand to deliver on this objective.

Our proposals

- **Renovation of non-residential buildings as a priority**: Non-residential buildings have a higher decarbonization potential compared to residential buildings (by about a factor of 2) while representing one third of overall energy consumption in the sector. The EU must build on the recently adopted Emission Trading Scheme (ETS) and the Energy Performance in Building Directive (EPBD) regulations to accelerate the

[16] Bloomberg NEL, Schneider Electric, Realizing the Potential of Customer-Sited Solar, 2021
[17] Solar Power Europe, n.d., EU Commission, 2024
[18] https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/renovation-wave_en

decarbonization of the sector through enabling voluntary commitments and supporting tools.

- **Digitalization of the building sector:** Digitalization could be key to facilitating the renovation of the building sector and making it cheaper. The EU must promote IoT-connected buildings through indicators and targets. The newly adopted EPBD introduced a standard for new buildings (‘net-zero buildings’). Considering the huge potential of rooftop solar PV, every new building must include PV (unless technically or economically unfeasible) as soon as possible, in anticipation of the new building standard.

2. Prioritizing digital transformation

Europe faces a productivity challenge. The EU economy is now 65% the size of America's in dollar terms, down from 90% just ten years ago[19]. Slow population growth is partly to blame, as well as the USD-EUR parity. Whatever the root causes may be, Europe must uncork the potential of digital technologies, not only to improve productivity, but also advance its sustainability journey.

As previously outlined, the combination of electrification and digitalization has ushered in the era of the prosumer. The key to unlocking a net-zero future in industry is using digitalization to transform the way industrial teams work. Technologies today can support higher efficiency and more ambitious sustainability objectives. They provide real-time data to optimize and better automate industrial processes and energy management. For example, operational efficiency is improved by better plant design and maintenance that uses software like the digital twin. The digitalization of our infrastructure – including our grids, our water management facilities, our cities, and our airports – is also important.

There are three major points that must lie at the core of the EU's digital agenda. Firstly, the EU policy framework must encourage AI uptake to improve competitiveness and sustainability of the economy. While AI is not a silver bullet, it can be a powerful accelerator. Secondly, the EU must design a forward-looking policy framework that focuses on the and green transition of the industrial sector.[20], what it is called 'Industry 5.0'. Finally, the EU must concentrate on the development of a level playing field encourages businesses to invest in Europe.

2.1. Accelerate the uptake of digital and responsible AI

The transformative potential of AI is even bigger than the advent of the internet in the 1990s. And like the internet, AI will be at its best when deployed responsibly and ethically: when powered with minimal impact on the environment, and used as an enabling tool and lubricant rather than an end-goal in itself. Done right, AI can be a necessary and powerful accelerator of existing technologies, while speeding up the development of new ones. Paired with such technologies, and with augmented reality, virtual reality, visualization technologies, digital twins, and the Internet of Things (IoT), AI allows us to reach ever greater efficiency. And for energy, greater efficiency means lower carbon emissions. It would also support job and growth development in Europe. For example, data centers must upgrade their critical power infrastructure to run AI reliably at scale, through technologies largely being provided by European manufacturers.

As highlighted in the Digital Decade Program 2023 report, there is still a long way to go for Europe with regards to harnessing the potential of digital. Indeed, as indicated in the 2023 Digital Decade Program report, AI uptake in businesses has reached 11% out of the desired 75% target by 2030.[21].

The EU must ensure that the implementation of AI-related regulations does not impede the development of AI in Europe, maintaining the balance between innovation, competitiveness, resilience, ethics, and safety.

[19] https://www.bruegel.org/analysis/european-unions-remarkable-growth-performance-relative-united-states
[20] https://research-and-innovation.ec.europa.eu/research-area/industrial-research-and-innovation/industry-50_en
[21] https://cdn.digitaleurope.org/uploads/2023/06/DIGITALEUROPEs-roadmap-for-Europes-energy-ecosystem-digital-transformation.pdf

Our proposals

- **Launch a data space for sustainable AI** to work together toward green AI systems, enhancing the positive impact on sustainability, such as through higher efficiency. Today, the collection and use of data must be considered in the context of developing further sustainable AI applications. Like-minded stakeholders need a common European space to exchange best practices and data to boost the sustainability of AI and digital.
- **Develop European AI Codes of Conduct,** based on the seven principles of the European Ethics Guidelines for Trustworthy Artificial Intelligence.
- **Provide guidance, training, and investments for responsible AI adoption in small and medium sized companies**. The recent setup of AI factories in the EU is an encouraging step forward.

2.2. Industry 5.0 to drive productivity, resilience, and sustainability

The European industry stands at a crossroads. Our continent is home to thousands of world-leading companies. Equally, the European Green Deal and the Commission's digital ambitions offer businesses and society tremendous opportunities. The European Commission came out with the concept of Industry 5.0. This completes the existing "Industry 4.0" approach by dedicating research and innovation to the transition to a sustainable, human-centric, and resilient European industry.

Industry 5.0 should be an opportunity to accelerate the transformation of the EU's industrial footprint. While a lot of public policy efforts have been put to re-shore some key industries, it is important to recognize that 90% of plants are legacy factories with low level of digital adoption and sustainability practices[22]. Without further investment and incentives, the projected baseline trajectory indicates that, by 2030, only 66% of businesses will use the cloud, 34% big data, and 20%[23] AI. Digital technologies have the potential to help resource-intensive industries reduce their global Co2 emissions by up to 20%[24]. In other words, these technologies can save 9.7x more emissions than they produce[25].

However, technologies and practices that harmonize productivity with sustainability exist today. Therefore, public policies should support adoption at scale. Industry 5.0 must become a systemic vision for Europe's industry that is based on the notion of enhanced productivity, sustainability, and resilience. This will help to reconnect industries with society.

[22] 2030 Digital Decade Report on the state of the Digital Decade 2023, published 27th of September 2023, European Commission.
[23] 2030 Digital Decade Report on the state of the Digital Decade 2023, published 27th of September 2023, European Commission.
[24] World Economic Forum, https://www.weforum.org/agenda/2022/05/how-digital-solutions-can-reduce-global-emissions/
[25] https://smarter2030.gesi.org/downloads/Full_report.pdf

Our proposals

- **Establish a masterplan to accelerate industry transformation** through demand incentives. It is important to consider a holistic approach here. Incentives should include the scope of advanced manufacturing systems such as automation, robotics, edge/cloud architectures, change management, cybersecurity, and energy efficiency. Europe must work on a roadmap promoting incentives for faster deployment of digitalization of industry at all levels.
- **Promote a "Digital European Society":** As suggested by the trade association Digital Europe, Europe's priorities must be to develop new programs to attract and retain tech talent as well as to ensure the upskilling of its workforce in the field of the twin green and digital transition. Europe needs digital skills to create the foundations for success and build a more prosperous, inclusive, and resilient society.
- **Develop common metrics to evaluate objectively the environmental impact of the digital transformation**. It is essential to continue the work started by the European Green Digital Coalition (EGDC) to quantify and qualify the impact of ICT. Schneider Electric has developed 28 key metrics[26] with definitions and applications for data center operators at various stages of their sustainability journey, and we also provide published industry-based target values for key.

2.3. Consolidate the digital policy framework

Europe cannot afford to fall behind in technology investment. Our resilience relies on access to the latest digital tools, and investing in technologies like cybersecurity, AI, and quantum computing.

On the other hand, the Single Market is the heart of EU integration. 56 million jobs in the EU depend on it[27], but it remains a work in progress. We should favor a European approach to regulation and implementation, not 27 different ones, in order to make compliance as easy as possible.

As the European digital legislative ecosystem develops, its complexity increases while its readability decreases. The next five years will be important for a successful implementation of the Data Act, the CRA, NIS 2 and the AI Act. We must ensure that policies are not overly complex but easy to deploy.

Our proposals

- **Focus on implementation:** the new European digital framework will require standards, clear guidance, and implementing acts to ensure consistency and clarity in their implementation. We recommend that the Commission clearly prioritizes implementation of these files through

[26] https://www.se.com/ww/en/insights/sustainability/technology-and-innovation/guide-to-environmental-sustainability.jsp
[27] https://www.consilium.europa.eu/en/policies/deeper-single-market/

transparent and inclusive processes. Indeed, stakeholder participation, especially in industry, will be key to the success of the new European digital framework.

- **Address complexity by clarifying the interplay between files:** we are particularly concerned with the overlapping requirements of cybersecurity arising from the number of recently adopted regulatory requirements in the Radio Equipment Delegated Act, Cyber Resilience Act, Cyber Security Act, and Artificial Intelligence Act[28].
- **Reaffirm commitment toward global alignment:** this is to safeguard the competitiveness of EU companies operating globally. A commitment to global alignment can be transcribed in several ways, and notably by:
- **Recognizing and using existing international cybersecurity standards in the European standardization processes,** to boost competitiveness of global players as well as to create a level playing field for cybersecurity globally.
- **Increasing transatlantic engagement**, notably on cybersecurity through the TTC and the EU/US Cyber Dialogue.
- **Developing mutual recognition schemes** on critical topics such as SBOMs and incident/vulnerability reporting.

[28] As an example, as the Cyber Resilience Act will soon be officially published, we call on the European Commission to clarify its interplay with the Radio Equipment Delegated Act, specifically as to the proposed repeal of the RED DA.

3. Consolidating the sustainability policy framework

Schneider Electric is a strong supporter of Europe's commitment to ESG and how it can be a catalyst for driving innovation and accelerating the energy transition, while positioning the continent as a hub for sustainable technologies.

We started monitoring our impact on people, planet, and profit back in 2005 with an industry-leading sustainability barometer. In 2021 we launched the Schneider Sustainability Impact (SSI)[29], a four-year programme to deliver outstanding sustainability performance. Our progress has been consistently recognized year after year by multiple external ESG ratings like the DJSI, CDP, EcoVadis, and Vigeo Eiris. In 2024, we featured on Corporate Knights' 2024 Global 100 list of Most Sustainable Corporations in the World for the 13th time in a row[30].

The political cycle, now coming to an end, saw an unprecedented flow of legislation to prepare Europe for the 2050 climate ambitions. For example, the Sustainable Finance package[31] that considers not only the financial impact of ESG issues on economic, but also their broader societal and environmental impacts. On the environmental and circular economy side, the past mandate saw a large amount of new legislation covering a wide range of industrial and consumer practices.

Schneider's policy asks for the next political cycle to continue building Europe's leadership in sustainability policies by refining the regulatory framework and moving it from a reporting only tool to an agent for transformation.

3.1. ESG reporting

The European Commission's Sustainable Finance package, launched in March 2018, is a key piece of the European Green Deal, not only enabling the financial sector to support the transition to a net zero, circular, and sustainable economy, but also to accelerate companies' trajectories to net zero.

Our recommendations aim at optimizing the current set of regulatory measures k and alleviate, where possible, the administrative burden, and to recognize the market players that are accelerating Europe's journey to net zero.

3.1.1. EU taxonomy: making it work

We support the strategic purpose of the EU taxonomy and believe it can be a powerful tool to help investors make informed decisions about sustainable investments and channel funding to technologies that accelerate the transition.

We point out important limitations, both in terms of structure and governance, as well as usability of criteria for alignment in the context of taxonomy that are, in our view, preventing the EU taxonomy framework from effectively delivering.

[29] https://www.se.com/ww/en/about-us/sustainability/
[30] https://www.corporateknights.com/rankings/global-100-rankings/2024-global-100-rankings/the-20th-annual-global-100/
[31] https://finance.ec.europa.eu/publications/sustainable-finance-package-2023_en

Matching ambition with new governance and agility

We observe with concern that the EU taxonomy lacks the structure to deliver on its ambition: it takes up to three years to get new activities added to the framework. The Platform for Sustainable Finance lacks the capacity and speed required to deliver.

Our proposals

- **Assessing alternatives to the Platform for Sustainable Finance**. For instance: creating an independent entity to lead the process with appropriate resources and governance, especially transparency. Stakeholder participation, particularly within industry, is .is key to ensuring that criteria from the various regulatory texts around taxonomy can be implemented.
- **Implementing an agile process** for introducing new economic activities as well as updating existing ones to reflect technology developments, policy priorities, and usability challenges — as well as amending criteria that become redundant due to new legislation (e.g. how to integrate recently approved legislation like the Fit for 55 package).

Tackling the usability of criteria

The EU taxonomy needs workable criteria leading to comparable and auditable disclosures. We urge the European Commission to strike a better balance between ambition and feasibility, particularly between the technical screening criteria and Do No Significant Harm conditions to ensure usability and proportionality are not overlooked. Examples of usability challenges include:

- the granularity level of the data requested on items not material to the operations of a corporation, and often going beyond their scope of control (e.g. product used in a plant that is more energy intensive than 100gCO2 kWh). Current ERP (enterprise resource planning) systems are not designed to meet such data requirements.
- going beyond the existing legal framework for chemical management, in particular for SVHC (substances of very high concern), which leaves REACH and RoHS compliant companies unable to get alignment.
- extraterritoriality of criteria (e.g. using IFRS16 real estate leases for the Capex KPI calculation) penalizing companies with a global footprint that cannot apply European building-related certifications on their building stock outside the EU.
- recognizing that products are sold as part of solution packages that include multiple features; breaking down what is taxonomy eligible is not straightforward.

We encourage the next leadership of EU institutions to promote the EU taxonomy model in other parts of the world, to foster a common understanding and alignment on sustainable finance globally, using the European model as a basis as much as possible.

3.1.2. Simplifying the Corporate Sustainability Reporting Directive (CSRD)

We praise Europe's leadership in establishing a framework for sustainability reporting that combines financial metrics with environmental and social performance. The CSRD will bring transparency, comparability, and accountability for investors and companies alike.

Based on our long-standing experience in sustainability reporting (our barometer monitoring our impact on people, planet, and profit dates back to 2005), we recommend the following reform measures.

Our proposals

- **Accelerate auditing standards and oversight of auditing practices:** Preparing for CSRD reporting, we observe deviations within regular auditing **practices**. We urge the adoption of auditing standards for sustainability information. Furthermore, close oversight from national regulatory bodies is necessary to prevent abuses from the very concentrated group of auditing companies.
- **Promote convergence between different frameworks for materiality** to cement the EU's global leadership in sustainability reporting. There is pragmatic approach in which the concepts of double materiality and financial materiality will result in the same or similar disclosures and which will ease the reporting obligations of European companies operating globally, improving productivity. Achieving a global baseline will help promote consistent reporting across jurisdictions that is internationally comparable while meeting local needs.

3.1.3 Foster international comparability and consistency on carbon

We call for Europe's support for global benchmarks that facilitate the comparability and consistency of sustainability information, particularly on carbon topics:

Carbon accounting: standardization of methodologies that support companies with carbon reporting. Data needs to be embedded deeply into core processes and across supply chains. However, the current accounting system for supply chain emissions/scope 3 emissions (i.e., the rules and approaches used to calculate these emissions) is severely flawed as it relies on data that often lacks accuracy, granularity, and comparability. Strong alignment between global and regional reporting policies is also key to ensure optimal reuse of existing data flows and business processes. We would also recommend interoperability between sustainability and carbon-related disclosures to ensure the requirements of topical standards can be used for cross-cutting standards.

Data interoperability: the global trend of increased GHG accounting and ESG reporting practices increased demand on companies to compile comparable and sharable GHG information. This reveals demand for interoperability, or the ability to compare, share, and use information across GHG accounting and ESG reporting systems and the supporting digital data system. We recommend and commit to supporting increased efforts that enhance data standardization, comparability, and transparency.

Avoided emissions: to accelerate the journey toward net zero, we recognize the need to focus on 1) how companies can be held accountable for their emission reduction targets and 2) how technologies and solutions enable decarbonization in value chains. Organizations can work together to define the most efficient ways to achieve our global net-zero goal by driving avoided emissions in other sectors of the economy. For this, the European Commission must develop a thorough understanding of the impact of technologies that can contribute to decarbonization by minimizing/avoiding carbon emissions. Long term, we should look to integrate that contribution in the context of the ESG trajectory from a company perspective, providing some conditions are met:

- This positive contribution is accounted separately from reduction of scope 1, 2, and 3.
- An evaluation of negative contribution (induced emissions) is also done across the whole portfolio (and not select products).
- Available and recognized standardized methodologies are considered, such as for example as for digital technologies;

3.2 Environment and Circularity

Industry players must play a key role to achieve the goals outlined in the EU Circular Economy Action Plan. At the same time, industry needs EU policy makers to facilitate innovation processes and incentivize all players in the market to become part of the movement. Circularity requires collaboration across the value chain, from suppliers to customers to policymakers. No single company can transform to a circular model alone.

It is a win-win for the EU to improve product circularity overall as a potential way to not only achieve our sustainability goals, but also reduce dependency on critical raw material imports. Focusing on reuse and waste prevention could be the key to this, while also strengthening the EU's resilience and strategic autonomy.

To achieve an ambitious policy around circularity, it is critical to engage various parts of the value chain and focus on opportunities that offer the highest market value via new business practices.

Schneider Electric is a sustainable industry leader. We are fully engaged in our sustainable journey, with a historically strong commitment to removing substances of concern from our products and manufacturing processes.

Our proposals

- **We urge the European Commission to continue their close collaboration with industry on the development of Digital Product Passport** and the data requirements using European standards.
- We welcome the introduction of the Digital Product Passport (DPP) and its strict information requirements, as a way to increase transparency and traceability of materials, while also lightening product life. End-to-end traceability is fundamental to building circular ecosystems and DPP will be an important enabler for circularity. Traceability provides trust but must be embedded with the appropriate privacy safeguards for

consumers, suppliers, and manufacturers. This can only be done through close private-public sector collaboration.

- We believe that to maximize impact and minimize greenwashing, this directive should also include **the regulation of** B2B commercial practices. Currently, B2B-only companies are not in scope and can publish unsubstantiated claims that mislead their customers This could lead to slower decarbonization efforts in the B2B sector.
- **A differentiated approach is needed for Substances per- et polyfluoroalkylées (PFAS).** Schneider Electric has done extensive research into finding substitutions or alternatives to PFAS (fluorinated gas). High-value polymers are essential in many industrial applications due to their unique characteristics (chemically inert, non-wetting, non-sticky, and highly heat resistant). This is why we need fluoropolymers and elastomers to be treated separately, as substances with significantly different properties cannot be treated in the same way.
- **REACH review as a necessary measure to address gaps within the current REACH:** While the current REACH regulation contains some tools to achieve most of the objectives of the new REACH review, Schneider Electric still supports the ambition of the EU institutions to review REACH. Considering lessons learned and proposed improvements (less administrative tasks, more effort on risk management, and substitutions), we hope that this will be dealt with in the new EU mandate, after the EU elections. One point of the current REACH that we would like to highlight for review in the new mandate is the different treatment of substances of high concern when it comes to products made in the EU and articles imported from abroad, and how EU supports fair competition between domestic and imported products.