DODS POLITICAL INTELLIGENCE

EU Green Deal Industrial Plan

Overview and initial reaction

By Matej Banovec

Introduction

On February 1, the European Commission presented the Green Deal Industrial Plan (GDIP), a four-pronged strategy designed to ensure Europe is a global leader in green technologies and supportthe bloc's 'net zero ambitions. This Dods EU Political Intelligence report provides an overview of the plan and some initial political and stakeholder reactions.

Overview

The GDIP aims to make Europe a leader in green technologies by simplifying and accelerating green regulation, speeding up access to finance, enhancing skills, and opening trade for resilient supply chains. The four-pronged strategy promises to harness the strengths of the EU Single Market and complement the EU's European Green Deal and REPowerEU plans. It also representsthe EU's most significant response yet to massive green subsidies in the US, with its controversialInflation Reduction Act (IRA), and in China.

The Commission will propose a Net-Zero Industry Act to identify goals for net-zero industrial capacity and provide a regulatory framework for its quick deployment. The framework will be complemented by the Critical Raw Materials Act, to ensure sufficient access to materials vital formanufacturing key technologies.

In parallel, the Plan will speed up investment and financing for clean tech production in Europe. To assist public financing in unlocking the huge amounts of private financing required for the green transition, the Commission will consult member states on an amended Temporary State aidCrisis and Transition Framework, and it will revise the General Block Exemption Regulation in lightof the Green Deal, increasing notification thresholds for support for green investments.

In terms of next steps, the GDIP is expected to be a focus of discussion at a special European Council on 9-10 February. The European Parliament is expected to vote on a resolution onan EU strategy to promote industrial competitiveness, trade and quality jobs at the next plenary session in Strasbourg on 13-16 February.

"Europe is determined to lead the clean tech revolution. For our companies and people, it meansturning skills into quality jobs and innovation into mass production, thanks to a simpler and fasterframework. Better access to finance will allow our key clean tech industries to scale up quickly," Ursula von der Leyen, President of the European Commission, said at the launch of the plan.

Political Reactions

EU leaders discussed the Commission's plan at a special European Council on 9 February and agreed in their conclusions that work should be "urgently" taken forward on:

- state aid policy, including making procedures simpler, faster and more predictable and allow for targeted, temporary and proportionate support
- increasing the flexibility of EU funds, to ensure fair access to financial means

- ensuring access to relevant critical raw materials and simplifying the regulatory environment to help foster greener industry
- boosting skills to meet the challenges of labour shortages and the transformation of jobs
- closing investment gaps through private and public investment.

The European Council invited the "Commission to regularly report to the Council on the impact of state aid policy and noted that the upcoming reform of the electricity market design should support a transition to a decarbonised and efficient energy system at the lowest possible cost, ensure security of supply and strengthen the EU's competitiveness."

At a plenary session of the European Parliament on February 16, MEPs agreed a resolution calling on the EU to "lead in clean energy technologies, improve its industrial base, and produce high quality jobs and economic growth to reach the Green Deal goals". The resolution was supported by centre-left parties, liberals and greens, while the centre-right largely voted against, mostly in reaction to the recent agreement to ban the sale of petrol and diesel vehicles and concerns about the impact on European industrial competitiveness.

One of the key bones of contention was whether the EU should double down or scrap the Green Deal objectives, with the majority favouring of continued commitment to net-zero. MEPs also focused on the EU's state aid rules, with some calling for more streamlining and simplification while others voiced concerns about the integrity of the EU single market. The resolution called for the rules to allow for flexibility while remaining targeted, temporary, proportionate and consistent with EU policy objectives. The resolution also stressed that a future European Sovereignty fund should aim to avoid the fragmentation caused by uncoordinated national state aid schemes and ensure an effective response to the crisis. MEPs also urged the Commission to work with the US to enable IRA incentives to be channeled to the country's free trade partners like the EU.

The centre-right EPP said the Commission's plan was "too little too late", stressing that more was required to ensure industrial competitiveness. Christian Ehler, spokesman for industry, said the IRA showed the regulatory approach of the Green Deal had immense limitations. "Europe needs to continuously focus on our 2030 ambitions but must strictly avoid additional burden for our industry," he said. He also called for a greater focus on research and innovation and welcomed the "Commission´s attempt to coordinate the various existing financial instruments in terms of collective use for a better outcome".

The centre-left S&D said the Plan fell short of what was needed and failed to address the social issues, adding "we can't achieve any environmental sustainability if there's no social sustainability to it. We should have learned the lesson by now: that it must be a just transition". The S&D also called for new sources of financing, as well as anincreased focus on the need to create long-term quality jobs. On the proposed relaxation of stateaid rules, the S&D group warned against the possible impact on the single market.

The centrist group, Renew Europe, welcomed the Commission proposals, noting the essential need to respond to the IRA. The liberal grouping said a "temporary crisis and transition framework allowing greater aid beyond the EU's current state aid rules will help to boost EU's industry competitiveness, foster clean technologies and renewable energy across the continent, enabling Europe's industry and economy to stay fit for the zero-emission era".

They also called for a European Sovereignty Fund on the grounds that it would help “prevent potential fragmentation of the single market due to uncoordinated national schemes and strengthen a united European response”.

The Greens welcomed the plan and called for “fresh money and massive investmentsin the expansion of renewable energies and the boosting of European production of solar panels and batteries...as well as an EU investment fund to ensure the unity of the EU internal market”. The Belgian Vice-President of the Group, Philippe Lamberts, called for “an EU investment fund to redress imbalances and ensure the unity of the EU internal market... There must be a level playing field for all EU member states and state aid to companies should be tied to environmentaland social commitments”.

Stakeholder Reactions

BusinessEurope published a statement prior to the publication of the communication, welcomingthe willingness of the Commission to act and calling for a focus to be on creating “regulatory breathing space companies to sustain the crises instead of continuing to burden businesses with further regulations”. Calling for the avoidance of a subsidy race with the US, the influential business stakeholder calls for steps to tackle high energy prices and regulatory costs as well as every possible step to “improve investment conditions in Europe to transform all industrial sectors”. One particular priority raised is faster and simpler planning and approval permits.

The German Industry Association, BDI, adopted a similar tone, welcoming the willingness of theCommission to act and calling for the removal of barriers to investment. Criticising what it labels as overly complex rules, BDI calls for simpler planning and approval procedures and for a more flexible subsidy framework with simpler access to funding programmes.

EuroCommerce, which represents the retail and wholesale sector, labelled the Plan an opportunity for “retailers and wholesalers a chance to seize the net-zero opportunity”. They warn,however, about the need to protect the single market, noting that a “robust single market remainsthe strongest strategy to increase the competitiveness of EU companies. A subsidy race betweenmember states will create a serious wedge between them, threatening the single market’s integrity.” EuroCommerce also argues that, “Retailers and wholesalers are perfectly placed to develop and co-develop business opportunities from circularity and waste reduction to renewableenergy generation and storage”.

An Alliance of Energy-Intensive Industries released a joint statement welcoming the “renewed attention to the competitiveness of the EU industry vis-à-vis its international competitors as a key enabler of the energy transition”. It points to the importance of their industries in providing products, material and affordable energy to strategic renewable and low-carbon value chains. Their proposed solution is “a comprehensive and coherent financial framework based on supportfor strategic value chains” and a “proactive industrial policy providing support to long-term investments based on the technologically neutral principle and on a full value chain approach.” Other solutions, they argue, should include a reduction of the regulatory burden and a focus on measures to ensure access to affordable, renewable and low carbon energy for industry's decarbonisation.

CEMBUREAU, the European Cement Association, called for a strong response to the IRA that allows the EU to maintain its industrial leadership and deploy green technologies as soon as possible. They stressed the need to focus on "energy-intensive industries, which are strategic and essential upstream actors in critical supply chains that bring low carbon products to market", suchas cement. In order to achieve the maximum impact, a revision of the state aid framework is calledfor as well as new "new financing tools such as Carbon Contracts for Difference (CCFDs)" on top of a simplification of broader EU funding mechanisms and dedicated tax rebates for green technology deployment and incentives. Other demands include the deployment of Carbon Capture, Utilisation and Storage and faster permitting procedures and a stronger focus on the deployment of renewables on industrial sites.

FuelsEurope used a letter to the Commission to welcome the plan, but warned that there is a "growing and dangerous trend of de-industrialisation of Europe that must be urgently addressed". In terms of the energy transition, they call for the fuels industry to "be fully supported throughouta transition from petroleum to renewable, fossil-free liquid fuel. It must be kept competitive todayand given clear strong investment pathways for the transition". They also call for measures to facilitate "that more private money is invested with simpler, more technology-open regulation".

Orgalim, which represents Europe's technology industries, welcomed the scope of the Plan and set out three priorities. This includes an increased focus on unlocking "major gains in energy andresource efficiency at a systemic level, such as those required for electrification, sector coupling and advanced manufacturing", the right balance between public subsidies and private investments, which they say will require steps to greatly increase private investment and furthersteps to ensure the future competitiveness of Europe 's net-zero industry. On this last point, Orgalim notes that "removing unnecessary and disproportionate regulatory obstacles, and meaningfully screening incoming legislation for its competitiveness impact on net-zero industries,must be a priority".

The European Environmental Bureau took a critical approach to the communication arguing that"the Green Deal industry plan seems to be an aid scheme proposal for the European industry, instead of a comprehensive plan to depollute and decarbonise the sector". They warn that subsidies alone are not enough to boost green industry in the EU and raise concerns about the lack of clarity about what net-zero technology actually is. The EEB calls for cuts to fossil fuel subsidies, proper pricing of carbon properly, measures to reduce demand and measures to facilitate secondary raw materials industries. Their head of climate policy, Luke Haywood, stated that "Green subsidies are good but not enough to have a meaningful effect on climate. The EU will not deliver this transition in time by throwing money at clean technologies. It also needs to make dirty production more expensive and phase out harmful tech".

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POLITICAL INTELLIGENCE

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