

BLOG POST February 2nd 2023

Three priorities for the Green Deal Industrial Plan

Picture credit : European Commission

Auteur

Nicolas Berghmans

Director, New industrial policies programme

🕒 Reading time: 7 min



The Inflation Reduction Act (IRA) adopted in August 2022 by the United States includes a set of measures and action programs to promote decarbonization; the objective is to lay the foundations for the competitiveness of the American economy in a low-carbon world. Hailed for its unprecedented climate ambition, the plan has nevertheless raised serious concerns in Europe about the risk for the European Union to being left behind in the (green) race for innovative low-carbon technologies in the industrial sector. It is in this context that the President of the European Commission, Ursula van der Leyen, presented in Davos last January and in Brussels on February 1 the Green Deal Industrial Plan, which is the outline of the European response to the IRA. What priorities should guide the debates on the implementation of this plan, especially during the next extraordinary European Council on February 9 and 10?

Despite protectionist elements that deserve diplomatic discussion between partners, the IRA is good news both for the fight against climate change, in that it would reduce U.S. emissions by [1 Gt per year by 2030](#) (bringing the country closer to its 2030 climate target), and for some European companies that will still be able to benefit from the U.S. market to continue to grow and take advantage of economies of scale. For Europeans, it is therefore important not to make the wrong answer and to focus on accelerating and making attractive their support for investment in the greening of their industry, which is what the [plan unveiled by the Commission on February 1](#) outlines.

How attractive is the IRA for the decarbonization of industry?

[What is in the IRA and its climate component](#) that triggered off the discussion in Europe? Due to internal political constraints that make any regulatory approach difficult, it is above all a plan to support investment in low-carbon industries based on incentives for low-carbon purchases and production through tax credits. It does contain protectionist elements in some of its components, through the requirement of local content criteria to obtain certain support, such as aid for the purchase of private vehicles, which can be the subject of bilateral and trade discussions and, if necessary, a response through the use of similar measures in Europe. However, these appear to be limited and the bulk of this plan comes from attractive tax credits for investors in a wide range of low-carbon technologies.

Most importantly, much of the financial support included in the IRA has no absolute limit and will therefore depend on the volumes of production committed, with the advantage for investors that they are not competing with other low-carbon project developers for the same funds. The Congress Budgetary Office (CBO) estimate of \$391 billion in public spending over ten years for the climate transition could be lower or higher depending on the deployment of low-carbon technologies¹. Thus, it is the generosity and stability in industry decarbonization projects over a long period of time that is the core of the IRA's attractiveness to investors.

Europe does not have to be ashamed of the comparison with the American plan. It has an ambitious regulatory framework in the process of being finalized, with in particular the Fit for 55 package which has made it possible to mobilize innovative players in low-carbon technologies, but also strong political support for the fight against climate change. What is missing today in the EU is the impetus to invest public funds and take risks for the deployment of innovative technologies in the decarbonization of industry: financial support is limited or being defined at European level and via national plans (in the Netherlands, Germany and France in particular). It is on this dimension (support and "de-risking" of investments) that the European response must focus, especially since the IRA is not unique in its kind: China, Japan and India have also announced investment plans, in an accelerating race for green technologies (a trend identified by the Commission's communication). An acceleration of the European Union is therefore necessary both on the economic level, its Green Deal having been presented as a competitiveness strategy, and on the political level, as leakage of innovative projects in low-carbon technologies outside the EU would weaken the consensus around ambitious climate action by closing the future prospects for European industry.

Three priorities for the European plan for green industry

The Commission's communication rightly focuses on a domestic response to the IRA, rather than trade retaliation or reciprocity. It identifies important levers to increase and secure support for low-carbon industrial projects in Europe, but it is in the detail of the measures that this plan will initiate that we will be able to judge the ability of Europeans to accelerate decarbonization and the competitiveness of their industry. Three priorities should guide the European debate in the coming months:

First priority: focusing public support on innovative and radically low-carbon technologies which may cost more today but which should be developed. The easing of the State aid regime and the simplification of

procedures announced by the European Union can speed up the granting of aid and access to support for the most innovative players. However, strict conditions must be maintained with regard to directing towards technologies and projects which will indeed have a role to play in a carbon-neutral economy, also with regard to performance in terms of reducing emissions of greenhouse gas. In this context, mechanisms under discussion, but which have been struggling to translate into reality, such as difference carbon contracts can be used, as well as public procurement, which would make it possible to guarantee large markets for new low-carbon materials. The industrial plan for the Green Deal may be the time to advance these subjects.

Second priority: enhancing the definition of an industrial transition strategy for Europe over the next ten years that pursues the objectives of climate neutrality and autonomy for Europe and that integrates exchanges with the continent's trading partners. This strategy should offer an integrated vision of the evolution of industrial value chains, taking into account that not all European countries have the same assets to specialize in all low-carbon technologies. Without slowing down the necessary acceleration of short-term aid, this plan would make it possible to set and adjust objectives at the scale of the industrial sectors announced in the law on the carbon-neutral industry to come, but also to identify the investment needs, guide the development of European energy networks and feed the objectives of [environmental and trade agreements with the EU's external partners](#). The revisions of the national energy-climate plans scheduled for 2023 and the upcoming definition of the 2040 climate objective may be an opportunity to bring out this common vision.

Third priority: laying the foundations for a long-term financing plan of the industrial transition based on the principle of financial solidarity between Europeans. This is the most strongly debated subject between European countries. This is also the point on which the Commission's communication remains not very detailed, referring only to a proposal for a European Sovereignty Fund in the summer. However, this is an essential debate to be resolved so as not to create antagonisms between European countries and so that all Member States have the capacity to host decarbonization projects. The amounts of aid to companies approved by the Commission are relevant in this respect, with nearly 80% of the amounts corresponding to aid by Germany and France. Easing state aid control without providing for this component of financial solidarity would amplify the internal dissension within the Union and increase the risk of fragmentation of the single market, divided into countries which can invest alone and those whose public finances are more constrained. The debate on the financing of the industrial transition should be linked to that on the reform of the stability and growth pact which must guarantee the ability of Europeans to invest in the needs of the low-carbon transition. Similarly, this industrial plan should support the development of European financing tools, and not just refinance national aid, in order to guarantee the coordination of European projects and a balanced deployment of low-carbon industrial projects in Europe.

The acceleration in the United States, as in China or Japan, of the race for green technologies should not make us lose sight of the fact that it is a positive development to increase the chances of mitigating climate change. Diplomatic work must be carried out to align the approaches between Europeans and Americans on the localization conditions which particularly concern the automotive industry and avoid triggering a protectionist race through the use of similar clauses. The European response must nevertheless be an opportunity to improve the attractiveness of its economy for innovative low-carbon industrial projects. This is a major challenge for Europeans who will have to get out of the current energy crisis as quickly as possible by accelerating efficiency and sobriety and the rapid deployment of renewable and low-carbon energies to guarantee energy security. However, Europeans do have the technological, financial or regulatory assets to take their place in this race in order to build the competitiveness of the economies of tomorrow.

¹ Credit Suisse recently estimated (<https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/us-inflation-reduction-act-a-catalyst-for-climate-action-202211.html>) that spending from the federal budget could be as much as double the CBO estimate based on higher

project deployment assumptions, particularly in industrial process decarbonization, hydrogen production and CO2 capture.

