May 2023

1 Net Zero Industry Act

1.1 Background

The emergence of comprehensive clean technology manufacturing strategies across significant economies has led to focusing on policy initiatives seeking to integrate climate, energy security, and industrial considerations. This trend is exemplified by initiatives like Japan's Green Transformation program, India's Production Linked Incentive scheme, and the United States Inflation Reduction Act (IRA). The IRA, in particular, has raised concerns among Europeans regarding US trade and foreign economic policy drifting towards increased protectionism. While the IRA offers significant opportunities for promoting sustainable industries in the United States, there are concerns among EU policymakers that European companies may be enticed to relocate due to the substantial subsidies offered. Thus, European policymakers are actively seeking ways to mitigate potential disadvantages and protect the interests of European industries in this evolving global landscape.

The response came out on 16 March 2023 in the form of a new proposal for regulation called the Net-Zero Industry Act.

1.2 Key Elements of the Net-Zero Industry Act

The Net-Zero Industry Act is crucial to the European Green Deal Industrial Plan. The Act sets the foundation of the EU's response to Washington's massive subsidies package. This new legislative proposal sets a goal for the EU to domestically produce at least 40% of the technology it needs to achieve its climate and energy targets by 2030.

The Net-Zero Industry Act is built on the following pillars:

1. Setting enabling conditions: it will improve conditions for investment in net-zero technologies by enhancing information, reducing the administrative burden of setting up projects, and simplifying permit-granting processes. In addition, the Act proposes prioritizing Net-Zero Strategic Projects, which are deemed essential for reinforcing the resilience and competitiveness of the EU industry, including sites to store captured CO_2 emissions safely. Such sites will shall benefit from shorter permitting timelines and streamlined procedures.

2. Facilitating access to markets: to boost the diversification of supply for net-zero technologies, the Act requires public authorities to consider sustainability and resilience criteria for net-zero technologies in public procurement or auctions.

3. Accelerating CO_2 capture: the Act sets an EU objective to reach an annual 50Mt injection capacity in strategic CO_2 storage sites in the EU by 2030, with proportional contributions from EU oil and gas producers. This will remove a significant barrier to developing CO_2 capture and storage as an economically viable climate solution, particularly for hard-to-abate energy-intensive sectors.

4. Enhancing skills: it introduces new measures to ensure there is a skilled workforce supporting the production of net-zero technologies in the EU, including setting up Net-Zero Industry Academies, with the support and oversight of the Net-Zero Europe Platform.

5. Fostering innovation: the Act allows Member States to set up regulatory sandboxes to test innovative net-zero technologies and stimulate innovation under flexible regulatory conditions.

6. Setting up a Net-Zero Europe Platform to assist the Commission and Member States in coordinating action and exchanging information, including around Net-Zero Industrial Partnerships. The Commission and Member States will also work

together to ensure the availability of data to monitor progress toward the objectives of the Net-Zero Industry Act. The Net-Zero Europe Platform will support investment by identifying financial needs, bottlenecks, and best practices for projects across the EU. It will also foster contacts across Europe's net-zero sectors, making particular use of existing industrial alliances.

1.3 FEDIL Position

The Net Zero Industry Act sends a clear and welcome political signal that the EU wants to develop its manufacturing capacity for the energy transition; unfortunately, it is too modest to achieve its objectives in many instances.

European policymaking must prioritize the EU to regain global competitiveness to stimulate the investments required to transition the entire economy towards net zero. The new pace that pushes the expansion of renewable energies must also apply to all low-carbon energy sources (like nuclear), industrial operations, and the decarbonisation of transport.

Simpler and faster permit-granting processes are a basis for attracting more European investments in critical technologies for successful decarbonization. However, the Net Zero Industry Act does not touch any existing EU legislation known to slow down the permit-granting process for new industrial projects. While it proposes that permit-granting processes in dedicated zones be issued within 12 months for compliant projects, we know that permitting processes, including the environmental impact assessments, are under the jurisdiction of EU Member States.

The limited scope of the Act risks becoming a handicap for Europe's net-zero transformation. Policymakers must acknowledge that the successful decarbonisation of Europe cannot be achieved without recognizing interdependencies between value chains and the need to decarbonize the entire industry. Not only must the scope of strategic and net-zero technologies be sufficiently broad and flexible to reflect technological developments, but entire value chains of raw materials, processed materials, equipment, parts, components, and intermediate products must also be fully in scope.

Ideally, qualifying as a 'strategic net-zero project should be possible for all 'net-zero technologies', as defined in the proposal. This would also make the Act more practical and thereby avoid unnecessary double layers. Besides the 'net-zero' technologies, also intermediate steps, i.e., less mature technologies, regardless of the TRL level, should be supported by the act.

Furthermore, paralleled financing programs such as the TCTF must align their support and eligibility periods and project deadlines to the challenge at hand. For example, the TCTF's aid for accelerated investments in sectors strategic for the transition towards a net-zero economy is granted only until December 2025. It would be unrealistic to believe that companies can submit all their decarbonization projects by the end of 2025.

The Net-Zero Industry Act should maintain the EU's competitiveness against the backdrop of the US Inflation Reduction Act. However, to fulfill this role, it must become bolder and show the courage to leave the well-trodden paths of EU industrial policy. There are many doubts as to whether it has the power to secure the future of heavy industry in the EU. For example, there is a risk that EU steel producers will shift the most CO_2-intensive liquid phase to geographical areas outside the EU to remain competitive. This will lead to a dependence on third countries for semi-finished steel products. The same relocation risk also exists for the cement and glass industries.