Joint statement on the Commission's proposal for a Green Deal Industrial Plan for the Net-Zero Age

Brussels, 10th March 2023

To:
Ursula von der Leyen, President of the European Commission
Frans Timmermans, Executive Vice-President of the European Commission
Margrethe Vestager, Executive Vice-President and European Commissioner for Competition
Valdis Dombrovskis, Executive Vice-President and European Commissioner for Trade
Thierry Breton, European Commissioner for the Internal Market
Virginijus Sinkevičius, European Commissioner for Environment
Paolo Gentiloni, European Commissioner for Economy

Honourable European decision-makers,

With this joint statement, Birdlife International, CAN Europe, European Environmental Bureau, New Economics Foundation, Transport & Environment and WWF EPO provide their recommendations on the European Commission's initiative to create a Green Deal Industrial Plan (GDIP).

Combating climate change is a race against the clock which can only be won if it is fair and inclusive. Ramping up renewable energy and green technologies such as batteries, at speed and at an unprecedented scale, is needed if we are to limit global warming to 1.5°C. On top, the adoption of the US Inflation Reduction Act now equips it with a long-term climate investment plan, increasing the global competition for clean tech and resources. In that context, the EU has to step up its efforts and put in place a cleantech strategy to flank its Green Deal.

However, the energy transition cannot be delivered only through innovation and technology. In particular, to avoid a race for material resources, Europe should find ways to reduce its material footprint by significantly rolling out demand-side management measures to reduce demand: ecodesign and circularity, energy efficiency, strengthening the sustainability of products, and supporting targeted innovative practices and techniques to achieve the Green Deal objectives.

The GDIP must contribute to transforming European industry and making it live up to the challenges of the 21st century. It needs to remain a focused green industrial strategy if Europe is to capture the economic and business opportunities from the energy transition. Still, it must go together with much more ambitious reforms to redirect private investments towards climate and environment compatible economic activities. Ending fossil fuel subsidies will render private green investments more profitable. Ultimately, transforming European industry goes well beyond clean tech manufacturing because Europe is home to a lot of primary, energy-intensive industries that need to be decarbonised and are not included in the GDIP.

The signatories call for the industry to develop, scale up, produce and deploy clean technologies. Setting the direction of travel with clear and time-bound performance criteria for these clean techs by 2030 is a catalyst for the rapid deployment of green products.

However, as it stands the Commission's plan falls short of addressing major issues:

- Lack of targeting of public resources: the scope of the GDIP needs to be carefully defined to support truly transformative green technologies whose deployment will help EU's decarbonisation efforts, and which align to behavioral change (demand-side management).

The GDIP needs to identify when and where public finance is essential for supporting the transition of important industries, and conversely where private finance can fill the gap, provided the appropriate regulatory incentives are put in place. For example, innovative SMEs may face a lack of access to finance, while it is doubtful that all large industries face a similar situation. Given constraints on public coffers, this may in turn reduce the available pool of resources for activities and sectors which are typically under-funded, as well as public goods, public infrastructure, and household level investments for the energy transition.

- **No adequate investment pillar in the GDIP**: the mere relaxation of State Aid rules without substantial additional environmental safeguards and financial mechanisms is likely to lead to further divergence across EU economies, as poorer EU countries may not have the fiscal space for investing in the green transition. As such, both new resources and EU fiscal rules that do not impede green public investment, are necessary. However, the sources of public funding highlighted in the Commission's plan mostly recycle existing instruments but fall short of creating additional EU funding. The possibility for Member States to allocate part of their national ETS revenues to fund net zero industry projects could help earmark funds to climate objectives, but will not necessarily lead to additional investments. As such, the financing gap identified by the Commission would not be filled, neither in the short nor in the long term.

Repurposing loans under the Recovery and Resilience Facility (RRF) and REPowerEU to clean industrial sectors can bring impact only if complemented by significant grant funding for operations which will not necessarily yield returns on investments, for instance public infrastructure development, grants to households that do not have the resources for renovation and small scale renewable investments, and education and re-skilling.

Beyond regulation and goal setting, the plan does not indicate how private finance will be redirected towards activities that serve a green and just transition. The necessary reform of the EU fiscal rules and rapid progress towards green taxation are instrumental to fill the financial gap identified by the Commission, and should therefore be connected by the GDIP. Continuing to build up the sustainable finance framework is also essential to channel private finance to the goals of the GDIP. To this end, the EU should take stock of progress to date and prioritise legislative action to build a coherent sustainable finance regulatory architecture.

With this in mind, we call on the European Commission to:

1/ **Focus the Net-Zero Industry Act on ambitious goals for 2030 with clear priority sectors**

This should include battery cells, cell components, renewables such as solar PV, solar thermal, wind power, geothermal and heat pump, grid technologies, renewable hydrogen for no regret options and energy storage. The establishment of priority sectors having the biggest added-value for the decarbonisation of our economy is necessary. This should explicitly rule out activities that are environmentally harmful, unproven at scale or linked to fossil fuels: biomass, biofuels, biogas, nuclear power, Carbon Capture Utilisation and Storage (CCUS) and non-renewable hydrogen must be automatically ruled out.

The GDIP should also focus on developing green public procurement, as this makes public authorities buyers of green products. Resources under the GDIP, including updated national recovery and resilience plans, could cover costs linked to green public procurement, until it becomes a common requirement under EU law.

2/ **Develop a strong investment pillar to back the Green Deal Industrial Plan** and a just transformation of the economy

EU funding is necessary to ensure a level playing field and finance the clean technologies in countries where governments have limited fiscal capacity. The Commission should therefore explore **new funding sources**, by proposing additional funding under the mid-term review of the EU Multiannual Financial Framework and by developing a new bond issuance program.

By **tackling market failures and sectors with insufficient private funding**, new joint EU funding should provide effective support to various segments of the clean technologies industry, in particular SMEs. It should also target worker reskilling, training and just transition to ensure a future proof skills base.

The proposed European Sovereignty Fund is an instrument which could play a role in this regard. Still, a challenge is that the concept of sovereignty risks making it much broader than a tool only focused on clean technologies.

Firstly, the Commission should explore the route of **providing grants and equity** for the manufacturing of clean technologies, through transparent EU-wide long-term support schemes in line with State Aid rules. A blueprint to design innovative financing mechanisms can be the planned expansion of competitive bidding under the Innovation Fund beyond renewable hydrogen. Similar EU auctions should be speedily extended to solar and wind energy, manufacturing of battery cells and components.

Secondly, using the potential of the European Investment Bank (EIB) Group for **loans, equity and guarantees** supporting operations in strategic value chains would complement EU grants. Still, relying solely on the EIB Group as suggested by the European Council would not live up to the task, as subsidies would not be possible.

Ultimately, joint EU funding under the GDIP should become a building block of a **future major climate long-term investment plan at EU level** with a broadened scope, covering for instance buildings insulation, charging infrastructure, electricity grids and support to demand-side measures. Any proposal for a new climate fund needs to be done after an assessment of the EU climate investment gap, effective consultations, and drawing lessons from existing EU funds, including the RRF.

3/ **Develop a green simplification agenda that improves permitting processes for green projects while complying with environmental laws.** Increasing expertise, capacity and skills in local and national authorities is a necessary step, alongside digitalising and simplifying approval processes. In order to fast track best in class green projects, each member state should appoint a project team/contact person within their government to advise the project. Improving the efficiency of permitting procedures must be achieved through proper planning by complying with existing environmental legislation and wider integration of demand-side management measures, and in no case through deregulation which runs counter to the protection of public participation, ecosystems and biodiversity. This streamlining should apply to projects clearly demonstrating that they meet high environmental and social standards and have local communities on board.

4/ **Introduce strong climate, environmental and social conditionality** in exchange for public support. Subsidies should only target companies that are delivering clear climate, environmental and social benefits and operate in a transparent way. Clear guidelines and pre-conditions should be developed to measurably ensure that the activities financed provide genuine climate additionality while not harming other environmental objectives. Thus, any access to subsidies to industry must be linked to a binding commitment to reduce greenhouse gas emissions by 2030, decarbonise the industry's value chain and invest in the European Union. Similar conditions on the need for companies to develop solid transition plans will help identify core technology and investment needs for contributing to industrial and sectoral decarbonisation. For example, subsidies for the production of renewable hydrogen must not benefit sectors that can be decarbonized using direct electrification, e.g. heating and road transport.

The aim of green industrial policy should also be to achieve social welfare gains. Therefore companies, in particular mid- and large size, should be required to achieve social conditionalities such as limit dividend payouts, stock-buy-backs and bonus payouts during receipt of state aid and guarantees of job creation, particularly apprenticeships and graduate roles. If commitments are not fulfilled, penalties and mandatory repayment of funds should ensure a fair and efficient resource allocation process.

5/ **Claim stakes when grants to private companies are provided by Member States or EU funds.** Grant-based finance should ensure that citizens equally benefit from the investments they bankroll, by claiming stakes on the companies receiving public support. The returns made could subsequently be recycled to green public investment, social support measures for a just transition, or investment support for households. This is already allowed under state aid rules, but should be made one of the preferred options under the GDIP.

We stand ready to work with EU policy-makers to ensure speedy and fair transition of the green industry sector for Europe to meet its climate and social ambitions.