

## ERCST feedback to the Commission's proposal for a Regulation establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem (Net Zero Industry Act)

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The Net Zero Industry Act (NZIA) is seen by many stakeholders as a EU response to the IRA, to help fill gaps that go beyond the carbon leakage mandate of the EU ETS & CBAM, and address broader issues such as industrial competitiveness, value chain vulnerabilities, etc. Given the different overall nature of the US and EU “packages” and the difference in governance between the two jurisdictions, the aim of this submission is to examine the NZIA while keeping in mind that it operates in a broader global context. While the EU may not want to compete in the direction taken by the US, the reality of the two models cannot be ignored, in terms of the ease of access and fundamental concept which makes it, at least in the short-to-medium term, more attractive to many investors.

From an institutional perspective, the NZIA gives a clearer picture to businesses regarding the EU manufacturing capacity needed to satisfy a large portion of the demand set out by the Fit for 55 package. The EU is making an effort to satisfy future clean tech demand with, to the possible extent, domestic production, rather than relying on imports, increasing the supply of net zero technologies and the speed of the transition towards clean economic development globally. It is a step in the right direction, but still allows gaps that will need, sooner rather than later, to be addressed, if the EU wants to decarbonize and not deindustrialize.

Remaining gaps/ areas for improvement:

- a) Even though the first stated objective of the NZIA is “to support decarbonisation”, no estimate on its direct impact in decarbonising the EU through domestically manufactured technologies, compared to importing them, is provided. Additionally, no impact assessment has been released in support of the second stated objective, which aims to secure and sustain a clean tech supply. The only available supporting study is a Staff Working Document (SWD) on the investment needs and funding availabilities for EU cleantech.
- b) When creating a list of strategic technologies that receive priority based on commercial viability and potential for rapid scale up to support the Union’s climate targets, there is a risk of prematurely locking into a particular technology, which can be costly for society. It may also lead to investments being directed towards favoured technologies dictated by policy, potentially hindering the exploration of new and diverse solutions.
- c) The funding instruments available for clean tech manufacturing are scattered, causing a twofold inefficiency. First, businesses struggle to grasp the entirety of the funds at their disposal, or do it in a time-consuming and costly way. Second, institutions struggle to both effectively monitor the overlapping of funding instruments and thoroughly assess their distribution along the value chains. The Commission SWD identified a public investment gap of around EUR 10 billion to fulfil the 5 key strategic technologies’ recitals. Although the recent legislative proposal “Strategic Technologies for Europe Platform” does allocate an additional EUR 10 billion for critical and emerging

technologies by streamlining existing EU instruments, it is uncertain how much of this funding will be allocated to net zero manufacturing technologies.

Proposed way forward: in light of the recent EU ETS Revision, mandating MS to spend 100% of the ETS revenues (around EUR 600 bn by 2030) on climate, cleantech manufacturing could become an important recipient of ETS funds. When funding cleantech manufacturing, the priority would be to 1) make sure the announced projects are completed, 2) the project pipeline of the lagging techs gets a boost, and 3) ensuring that those contributing to the funds through their ETS obligations are given recognition.

- d) While ERCST supports the inclusion of CCS technology in the NZIA, it is a shortfall not to target all the value chain aspects. The commission addresses the challenge by requiring storage capacity, but without incentives or requirements for transport or capture. While it may look like demand is there, there is an element of unmitigated rush. This also represents a significant further state intervention in the economy by requiring enterprises to enter into a market which they may or may not want to enter, with an economic model whose viability is untested and unclear.

Proposed way forward: a holistic value chain perspective on CCS would encompass embedding carbon capture and transport in the policy mix in addition to storage. Setting targets should be conditional to an impact assessment on that matter.

- e) Focusing solely on the midstream value chain is inadequate to ensure a steady supply of and demand for transition technologies. Manufacturing these technologies relies on upstream factors such as the availability of raw materials and the downstream demand for industrial and civilian applications/ end products. Clean tech is an enabler of the green transition, and as such its goal is accomplished when a full passage from the upstream to the downstream parts of the value chain is achieved.

Proposed way forward: upstream, given the impossibility to fully satisfy the EU manufacturing needs with domestic CRM reserves, it is important to build and solidify a strong network of “like minded” countries. Although this strategy is set out in the CRMA, it is important to strengthen it and keep it as a priority. Downstream, supporting measures to strengthen competitiveness and healthiness of EU industry is key to ensure the demand needed for the NZ technologies. The Parliament’s proposal on the development of Net-Zero Industry Valleys limited in geographical and technological scope in order to promote industrial symbiosis goes in this direction.