C/2024/1566

5.3.2024

Opinion of the European Economic and Social Committee on Industrial policy as an instrument to reduce dependencies and boost an EU market for green products in the resource and energy-intensive industries (REIIs)

(own-initiative opinion)

(C/2024/1566)

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Plenary Assembly decision	25.1.2023
Legal basis	Rule 52(2) of the Rules of Procedure
	Own-initiative opinion
Section responsible	Consultative Commission on Industrial Change
Adopted in section	9.11.2023
Adopted at plenary	13.12.2023
Plenary session No	583
Outcome of vote	
(for/against/abstentions)	165/0/2

1. Conclusions and recommendations

1.1. The EU is currently facing the challenge of reducing greenhouse gas emissions and transitioning to a green economy. The EU's industrial sector plays a crucial role in this transition, but it is also currently struggling with high energy prices. The Commission has developed an industrial policy for the Green Deal (GDIP), focusing on regulatory simplification, access to funding, enhancing skills, and resilient supply chains.

1.2. Decarbonising society and the European economy may create a virtuous cycle for resource and energy-intensive industries (REIIs) and for the environment, increasing the demand for decarbonised products from REIIs. Ideally this will facilitate a greener transformation process if REIIs, other sectors and households move towards green energy once it is available in sufficient quantities and at reasonable and predictable prices. A new regulatory framework for energy prices that builds on the low prices of renewable energies and avoids closely following gas prices must therefore be created as soon as possible.

1.3. The European Economic and Social Committee (EESC) stresses the need for REIIs to be properly involved in this policymaking and in implementing the EU's ambitions for climate neutrality at all levels. We recommend sector-specific policies be developed in accordance with the specific obstacles and needs of the different REIIs branches. This may also be possible by increasing coordination and coherence between industrial policies, commercial policies and climate policies at European Commission level.

1.4. Duplicate regulations and overregulation must be avoided, and new or revised EU legislation subject to strict competitiveness checks in order to create regulatory breathing space and to attract and keep investments in greening the domestic industrial capacity.

1.5. The EESC notes that Europe has been quick to set ambitious targets for the European Green Deal, but has been slow to update framework conditions to allow for a speedy transformation. Given the present set-up, this is also the case for the industrial policy for the Green Deal and the Net Zero Industry Act (NZIA) ([1]), although some issues, like increasing the speed of granting permissions, have been improved.

([1]) COM(2023) 161 final.

1.6. In this context, the EESC stresses that ensuring financing and investment support for the green transition is also vital. Market creation policy instruments and consumer policies can also incentivise the shift towards green products and technologies.

1.7. The EESC underlines that both demand-side and supply-side interventions are necessary for an effective industrial policy. Demand-side interventions can include promoting European content in products, implementing sustainable public procurement, and creating a market for green products. Supply-side interventions can involve creating a regulatory framework to support clean-tech production models, facilitating the production and consumption of decarbonised energy, and supporting the development of hydrogen infrastructure. The introduction of long-term mechanisms to facilitate the production, accessibility, and consumption of decarbonised electricity and energy at globally competitive prices is also important for the global competitiveness of EU industries — especially the REIIs.

1.8. The EESC stresses that the EU's ambitious climate goals will not be reached without a global level playing field through a well-designed trade policy and strong trade defence instruments (TDI). In fact, the EU needs to take action against unfair competition from third countries by strengthening trade relationships with resource-rich partners who adhere to fair trade. Market surveillance needs to be strengthened to guarantee that imported goods are compliant and to ensure that their production is in line with EU standards and regulations, including those on the recycling content of these goods.

1.9. The EU should aim to achieve its climate objectives while fostering economic growth and job creation. Measures for upskilling and reskilling workers should be implemented in all Member States. Initiatives, investments and policies in this framework should also include targeted measures for low-income communities, low-skilled workers and groups that have become vulnerable through the green transition.

1.10. The EESC recommends that the necessary institutional and bureaucratic capacity be developed at national level in the Member States, in order to handle the governance of the industrial policy for the Green Deal, the net-zero transition act and the creation of green markets.

1.11. At the same time, the EESC urges the Commission and Member States to set up a strategic industrial policy to intensify sectoral industrial policies and the necessary changes in the EU governance system, and to have an open debate and effective discussions across civil society on these issues. These debates should be to the point, agile and deliver results in the near future.

1.12. Any attempt to establish a strategic and sectoral industrial policy will fail without strategic intelligence on scientific, technological and sectoral developments. The EESC encourages the European Commission to explore new ways and means to collect and analyse the key data for developing strategic industrial policy in the future. The Commission should also set up periodic evaluations of policies related to decarbonising REIIs in order to measure the impact on EU competitiveness and economic resilience. These should take place at EU level and include the social partners.

2. **Introduction and background**

2.1. In 2019, industrial production in the EU emitted around 3,1 gigatonnes (Gt) of CO_2 — less than 9 % of the worldwide CO_2 emissions for that year. On the other side, consumption in the EU was responsible for 3,4 Gt of CO_2 emissions, representing 10 % of global CO_2 emissions. Most of the latter CO_2 emissions derived from the production of goods imported for EU consumption are currently emitted in non-EU countries, in particular in China (27 %), Russia (12 %) and the United States (8 %) (2019 data ([2])).

2.2. The energy-intensive industry ecosystem covers a broad range of sectors, such as the chemical, steel, paper, plastic, mining, extraction and quarrying, refinery, cement, wood, rubber, non-ferrous metal, glass, ceramic and man-made fibre sectors. These sectors are characterised by high energy and carbon intensity, and the fact that they are the starting points of many value chains, providing raw, processed and intermediate materials. The EII (energy-intensive industry) ecosystem employs 7,8 million people in Europe, and provides an added value of EUR 549 billion (4,55 % of the EU total). In 2019, it was responsible for 22 % of total EU greenhouse gas emissions.

([2]) https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20220524-1.

2.3. While industrial policy is stepping up measures to reduce the impact of economic activities on the biosphere, the energy crisis is leading EU countries to rely on other countries which have lower energy costs and higher carbon footprints. This further opens the door to competitors from regions with lower energy costs, resulting in a surge of low-cost imports (often with a much higher carbon footprint), and a loss of global market share. This is potentially harmful for the EU Green Deal and demonstrates the urgent need for a strong EU industrial policy able to ensure economic resilience and open strategic autonomy.

2.4. Given the above, the current era can be seen as a renaissance of industrial policy in Europe. The industrial policy for the EU Green Deal, recently published by the European Commission, focuses on:

— a predictable and simplified regulatory environment;

— faster access to funding;

— enhancing skills; and

— open trade for resilient supply chains.

2.5. Moreover, the NZIA aims to trigger massive investments across net-zero industry value chains, including EIIs.

2.6. In recent years the EU has raised its ambitious climate targets to reduce the impact of economic activities on the biosphere, leading to a significant increase in new regulations for the coming years.

2.7. Effective measures for upskilling and reskilling workers should be implemented uniformly at EU level, as should assistance policies (including monetary support or services for affected workers in REIIs). Targeted labour initiatives for the regions most affected by the industrial transformation are also needed, involving low-income communities, low-skilled workers and groups that have become vulnerable through the green transition.

3. **Managing the transition in REIIs and creating EU green markets**

Decarbonising the REIIs: a win-win in policymaking

3.1. Decarbonisation efforts in REIIs will have a decisive impact on the overall transformation process, especially on heavy emitters of greenhouse gases (GHG) and consumers of raw materials. Consequently, a significant reduction of CO_2 emissions derived from REIIs will influence the efficiency of the transformation, as measured by the energy return on investment (EROI) ([3]) and the impact on the climate approximated by the use of renewable energies in the process.

3.2. Decarbonisation solutions should be centred on the specific needs and obstacles that each different sector encounters in its own process. Therefore, sector-specific policies may represent the best option.

3.3. In addition, the Commission should ensure coordination and coherence between industrial policies, commercial policies and climate policies.

3.4. However, the legislative and regulatory processes represent a complex bureaucratic framework, thereby in certain cases making green investments less attractive for the industries. To create regulatory breathing space and to attract and keep green investments, new or revised EU legislation should be subject to strict competitiveness checks.

3.5. In this regard, the Commission should set up a periodic evaluation of policies related to decarbonising REIIs, measuring the impact on competitiveness and economic resilience.

3.6. The creation of stable and foreseeable markets and business environments is also essential for allowing REIIs to start their decarbonisation process and contribute to the transformation.

([3]) EROI (energy return on investment) is a measure of the net energy produced by an energy source, relative to the amount of energy invested in its extraction, transportation, and conversion into a usable form, e.g. the amount of energy used to produce a solar panel vis-à-vis the energy produced by this panel over its lifetime.

3.7. China's strategic approach and the huge success of the US Inflation Reduction Act require a strategic and convincing response from Europe. Europe has been the perceived leader of the green agenda since the elaboration of the European Green Deal in 2019. However, although the EU wants to be considered the leader of the green transition, its investments on this matter are much smaller than those of China, and less agile than those of the US. The US IRA production subsidies and tax breaks are leading EU companies to move their green tech investments to the US at the expense of Europe. Europe has to reform the governance system to be able to compete with the US and China.

3.8. Moreover, coordination between different policy areas should be evaluated on a daily basis, and not in one sole lengthy process.

3.9. Any attempt to establish a strategic industrial policy needs strategic intelligence on scientific, technological and sectoral developments. New ways and means to collect and analyse the key data for developing strategic industrial policy in the future should be explored.

Boosting EU competitiveness to avoid dependencies

3.10. In the coming years the EU will need massive amounts of critical and strategic raw materials to meet the requirements of the green and digital transitions, while preserving Europe's open strategic autonomy. REIIs are important suppliers of materials and products to support the green transition in other sectors of the economy, but are at the same time consumers of renewable energy and green products that will be produced by the latter. Therefore a stable supply will be essential. Furthermore, downstream products that are strategic and key for decarbonising the EU economy should also be given special attention.

3.11. In several studies, the EU and the JRC have already identified products and technologies that are crucial for decarbonisation efforts, which should be considered when designing future EU policies ([4]). EU industry is in competition with distorted third-country imports that, in some cases, benefit from state-regulated energy prices and significant subsidies. The energy crisis in Europe therefore poses an existential threat to Europe's industrial basis.

3.12. EU climate and industrial policy should be aligned to promote EU industry's commitment to reducing CO_2 emissions at both European and global level. The EU should therefore continue providing carbon leakage protection to REIIs. In addition, considering the urgent need to promote the electrification of industrial processes, the Commission should amend the guidelines on certain State aid measures in the context of GHG trading beyond 2021. The list of sectors eligible for compensation of indirect carbon costs passed through electricity prices should be extended to reflect the current higher electricity prices, and to include sectors and sub sectors at risk of carbon leakage that have a significant potential for electrification.

3.13. In addition, the EESC welcomes the Commission's proposal for a regulation to improve the Union's electricity market design which ensures basic energy supplies at regulated and stable prices.

3.14. Last but not least, the NZIA and GDIP exist on paper but still need to be converted into policy interventions. Furthermore, the EU should invest to create the necessary institutional and bureaucratic capacity inside the Member States to handle the governance of the net zero transformation and to create green markets.

4. **Green markets and the attributes of an effective EU industrial policy**

4.1. The ambitious decarbonisation path towards carbon neutrality involves radically transforming European industry and requires increasing production capacities and technological developments, primarily through a boost of investments and the creation of markets for green products (based on the carbon footprint indicator).

([4]) See Carrara, S., et al., *Supply chain analysis and material demand forecast in strategic technologies and sectors in the EU — A foresight study*, Publications Office of the European Union, Luxembourg, 2023, doi:10.2760/386650, JRC132889.

4.2. Decarbonised industrial production could have a competitive disadvantage vis-à-vis conventional, carbon-intensive industrial production. This is due to higher risks in implementing new technologies, higher production costs (OPEX) and higher input costs. Policymakers have a number of options to intervene on the supply or demand side of CO_2 gas emissions. On the supply side this could include the emissions trading system (ETS) and carbon border adjustment mechanism (CBAM), as well as public support for investment, innovation, research and development (R & D) and energy inputs. Measures on the demand side might focus on green public procurement, specifically by providing information on environmentally friendly products.

Demand-side interventions

4.3. The commercialisation of low-emission industrial products faces systemic barriers. Greening the EU industry should be carried out alongside effective awareness-raising campaigns, output subsidies and similar measures to ensure a smooth increase in demands for green market products.

4.4. Significant parts of industrial value chains are currently located abroad, resulting in identifiable vulnerabilities for the European economy and society. The EU should therefore promote European content in products across global value chains. Public procurement should incentivise goods made from components originating in the EU. Public authorities must give the tender's sustainability and resilience contribution a weight ranging between 15 % and 30 % of the award criteria. This goes beyond mere (low) price criteria and is aligned with the 'most economically advantageous tender' (MEAT) principle. This should lead to a more binding approach on sustainability/MEAT.

Public procurement greening

4.5. REII decarbonisation objectives would benefit from public procurement greening, which has not yet made big inroads in CO_2 emissions. This may also still be a way to create markets for green products. The EU Taxonomy ([5]) — created to support sustainable investment by defining clear criteria at industry level of what is considered a green activity — might also be used for public procurement, R & D, innovation and investment decision-making.

Supply-side interventions

4.6. In this context, appropriate regulatory framework conditions for clean-tech production models would lead to the success of the whole decarbonisation policy and would complement the EU's climate-neutrality ambitions in practice and at all levels.

4.7. The introduction of long-term mechanisms to facilitate the production, accessibility, and consumption of decarbonised electricity and energy at globally competitive prices is also important for the competitiveness of EU industries — especially the REIIs. A clear and concise framework for the cost-competitive production of green and pink hydrogen is necessary, as well as mechanisms to support the development of hydrogen infrastructure and reskilling and upskilling workers for hydrogen-based industries.

4.8. In the framework of the European Critical Raw Materials Act (CRMA) ([6]) proposed by the Commission, the EESC believes that the current critical raw materials and strategic raw materials lists should be complemented with materials relevant for the green and digital transitions, which might become critical and strategic in the future (e.g. aluminium, ferro-alloys, synthetic graphite, silver), and with secondary, post-consumer raw materials (e.g. scrap metal).

Trade policy

4.9. None of these goals will be reached without a global level playing field through a well-designed trade policy and strong TDIs to protect EU industry against unfair competition and dumping from third countries. The EU should aim to ensure faster implementation of trade defence measures, conduct quicker and more efficient investigations, and allow for a wider implementation of provisional measures.

([5]) Opinion of the European Economic and Social Committee on the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions — EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal (OJ C 517, 22.12.2021, p. 72).

([6]) COM (2023) 160.

4.10. The introduction of a CBAM is aimed at avoiding carbon leakage and incentivising global decarbonisation. The EU should take all necessary steps to ensure that the CBAM does not lead to an increase in GHG emissions in other parts of the world.

4.11. The EESC recommends that the Commission assess the effectiveness of the CBAM in addressing the carbon leakage risk for goods produced in the EU for export to third countries. This has to be done during the evaluation period before the measure is carried out. If this report concludes that there is a carbon leakage risk for goods produced in the EU, the Commission should present a legislative proposal to address these risks. In addition, a wide range of strong anti-circumvention measures must be explored during the transitional period and subsequently applied to imports.

4.12. Market surveillance needs to be strengthened to guarantee the compliance of imported goods, including on the recycling content of these goods. The EU should consider harmonising and strengthening EU regulations on the import of industrial goods and e-commerce to promote sustainable and fair products.

Financing and investments

4.13. Policy consistency across EU regulations is necessary to ensure predictability and attract clean investments, and to support the green transition and the competitiveness of industry. Prudent market creation policy instruments will also be needed to fully recognise and prioritise the value of low-carbon industrial materials and to increase demand for products made from these materials.

4.14. Financing is also needed to boost research and development so that the EU can become a leader in sustainability. Simplifying the application process for public funding is key for accelerating innovation and sustainability.

4.15. Authorisation procedures should be seen in the context of investment and innovation projects that are intended to promote economic competitiveness and the greening of the economy. Identifying priority projects when it comes to activities such as mining, refining, and recycling operations is also necessary to improve the security of supply for EU industries. Accelerated permitting procedures at national level and easier access to financing will be critical for ensuring strategic autonomy in those value chains. During this process it is essential to preserve a level playing field within the EU single market. New opportunities for national subsidies under the temporary crisis framework privilege deep-pocketed Member States, where we are witnessing a trend towards more national measures of financing.

The circular economy

4.16. To promote circularity, the EU's focus should be on support technologies and facilities for collecting, sorting and recycling. In this regard, the circular economy could be an instrument for decarbonisation and for increasing the demand for recycled products through the creation of markets for the latter. Unfortunately, legislation itself is hindering waste recycling. Simplifications are needed to boost recycling activities.

Brussels, 13 December 2023.

The President
of the European Economic and Social Committee

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