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From:	Trio Presidency
To:	Working Party on Competitiveness and Growth (High Level)
Subject:	Discussion paper: IRA and the European Business Case for Green Industries and Investments

Delegations will find in Annex a Trio Presidency discussion paper on IRA and the European Business Case for Green Industries and Investments, in view of the meeting of the Working Party on Competitiveness and Growth (High Level) on 16 February 2023.

IRA and the European Business Case for Green Industries and Investments**I. SCENE SETTER/BACKGROUND**

Climate change and environmental degradation are threats to Europe and the world. To overcome these challenges, innovation incentives and investments to foster green transition are needed on a global scale. All economies need to take actions to promote green transition, reduce emissions and mitigate the consequences of climate change. The European relative attractiveness for clean energy technology industries could be at risk if the European business case for these industries is not strengthened. This must be done while also mitigating other challenges facing our economies, such as geopolitical tensions, relatively high energy prices, and ensuring resilient supply chains. Measures taken must also ensure a level playing field and not undermine the long-term competitiveness, the functioning of the market, nor the conditions for doing sustainable business in the long run.

II. THIRD COUNTRIES' SUBSIDIES IN CLEAN ENERGY TECHNOLOGY INDUSTRIES

The race for global competitiveness in clean energy technology industries is on. In 2020, EU Member States gave € 77 billion in state aid for climate, environment, and energy¹. Globally, several third countries are also subsidising clean energy technologies. These subsidy measures risk to significantly impact global trade and investment flows and create serious distortions, market volatility, and negative spill-over effects. Measures aimed at achieving short term regional lock-in effects do not favour important factors that create competitiveness and productivity in the long-term and hence run the risk of being counterproductive.

In the **United States** (US), the Inflation Reduction Act's (IRA) measures aim to accelerate the energy transition of the American economy and significantly increase investment opportunities in the US for scaling-up clean energy technology projects, including European ones. While the US IRA is a game-changer for the growth of renewable energy, and solar, wind, battery and automobile manufacturing in the US, its very generous investment and production tax credits and its discriminatory demand-side incentives (such as the domestic content bonus) have an immediate global impact on the competitiveness of clean energy industries in other world regions. The current situation risks diverting important parts of the European value chain to the US and could weaken Europe's capacity to undergo its own green industrial transition.

China has provided significant amounts of state aid over the past decade in strategic sectors, such as electric vehicles (estimated at more than US\$100 billion). At the end of 2021, the outstanding green loans of major Chinese banks reached US\$2.3 trillion, nearly tripling since 2016, while outstanding green bonds increased to US\$254 billion, having increased sixfold. Part of the support provided includes consumer subsidies and rebates; exemption from sales tax; expert support on R&D and public procurement. Moreover, the government directly or indirectly funnels credits and investment into 'strategic sectors', e.g. through so-called government guidance funds that combine public and private investment as well as lending by state-owned banks. In addition, China applies a Buy National policy, which gives preferential treatment to goods and services developed locally.

¹ According to State Aid Scoreboard 2021

Other third countries are also active in their support. In the case of **Japan**, under the new Economic Security Promotion Act (ESPA), specific companies supplying designated critical commodities can receive a variety of public support tailored to their needs, including financial and fiscal support (e.g., subsidies) over medium to long-term. Critical commodities designated as special goods will receive additional public support. In the upcoming measures on critical raw materials, supply chains will focus on direct subsidisation and supplementing de-risking measures such as loans, debt guarantees and equity.

III. THE EU'S STRENGTHS AND WEAKNESSES

The strengths of the EU framework are based on the comprehensive and non-discriminatory approach across industrial ecosystems to support the clean energy technology business case in Europe. The EU's rules-based and open economy with a level playing field will favour our industry and competitiveness in the long run. A well-functioning Single Market with reduced administrative burden, better regulation and innovation policy focused on market failure promotes productivity. The EU already has various measures and financial instruments in place, both at EU² and Member States³ level, including their regional dimension, promoting and creating market incentives for a green transition, long-term competitiveness and promoting clean energy technology industries in the EU.

² The energy and climate legislation proposed under the Fit-for-55 package, the REPowerEU plan, the Recovery and Resilience Facility, Horizon Europe, InvestEU, the Innovation Fund, the European Structural and Investment Funds including the Just Transition Mechanism, European Innovation Council, European Investment Bank, and Industrial Alliances.

³ State aid rules such as the Temporary Crisis Framework (TCF), the Guidelines on State aid for climate, environmental protection, and energy (CEEAG) and Important Projects of Common European Interest (IPCEI) Guidelines.

Industry feedback, however, regularly pinpoints the current EU supporting framework as too complex, fragmented and unpredictable to preserve EU global competitiveness in clean energy technologies. This undermines the transparency and predictability in the regulatory process even though transparency and predictability are crucial aspects for long-term investment decisions and long-term market strategies. Possibilities of receiving state aid for productive investments in clean tech supply chains are also more restrictive than those applied by our competitors. Small and Medium-sized Enterprises (SMEs) constitute a large part of the production value in manufacturing value chains. Meanwhile, foreign investors are targeting European SMEs innovating green and digital advanced technologies. In turn, it risks draining competence and innovation and having a negative impact on the EU's green transition and competitiveness. The Commission estimates that significant energy-related investments are needed during the coming decade.⁴

⁴ According to the Commission, the total energy-related investment needs at the EU level associated with Fit-for-55 would be more than €400bn per year in the next decade. This is on top of the historical average annual of around €660bn per year recorded for 2011-2020. Moreover, REPowerEU projects that €300bn investments cumulative from this year until 2030, in addition to the Fit-for-55 investment estimates, are needed to become independent of Russian gas by 2027 and achieve REPowerEU energy and climate targets. Around €250bn of the €300bn investments are expected by REPowerEU to be needed over the period 2022-2030 to achieve REPowerEU ambitions in the areas of renewable energy capacity, energy efficiency and heat pumps, decarbonisation of industry, sustainable biomethane and renewable hydrogen.

IV. WAY FORWARD TO STRENGTHEN THE EUROPEAN BUSINESS CASE FOR GREEN INDUSTRIES AND INVESTMENTS

We need to consider how the EU should continue to be an attractive location for investments in clean energy technologies, how to ensure that green investments are made in the EU rather than elsewhere and how to make investments in the EU easier and more attractive.

In its conclusions of 15 December 2022, the European Council underlined, in the light of high energy prices in Europe, the importance of safeguarding Europe's economic, industrial, and technological base and of preserving the global level playing field. Furthermore, the European Council underlined the importance of an ambitious European industrial policy to make Europe's economy fit for the green and digital transitions and reduce strategic dependencies, particularly in the most sensitive areas, while ensuring a level playing field, and the need for coordinated response to enhance Europe's economic resilience and its global competitiveness while preserving the integrity of the Single Market. The Commission was invited to conduct an analysis and to make proposals by the end of January 2023 with a view to mobilising all relevant national and EU tools as well as to improving framework conditions for investment, including through streamlined administrative procedures.

The Commission has presented the Green Deal Industrial Plan, covering four pillars: the regulatory environment, financing, skills and trade. These are all fundamental areas for the European relative attractiveness for the green investments and industries. The Commission will also put forward the Net-Zero Industry Act, to underpin industrial manufacturing of key technology and provide a simplified regulatory framework for products that are key to meet our climate neutrality goals. According to the communication of the 1 February 2023⁵, the Net-Zero Industry Act will entail measures on identifying goals for industrial capacity by 2030, reducing lengths of permitting processes and introducing 'one-stop-shops', identifying and promoting strategic projects and enabling the Commission to request standards for fast roll-out of key technologies.

⁵ Communication from the Commission on the Green Deal Industrial Plan for the Net-Zero Age (COM (2023) 62)

A key factor for the future European business case are stable, business-friendly and transparent market conditions with a coherent framework that sets out long-term and predictable perspectives for business investments. It is therefore important to ensure such environment. There is a need to better deploy and structure existing instruments, for example through better, more transparent and predictable regulation and coherent policies, more efficient permitting processes, and more efficient and predictable state aid processes while maintaining a strict legal framework. There is also a need for a stronger coordination between Member States and the EU in certain areas, and a greater clarity and simplicity of the EU business case. In addition, it is also important to consider and enable access to resources (e.g. raw materials, labour, and skills), support the development and take-up of transformational technologies (including by mobilising the regulatory environment and promoting innovation) and foster the capacity to ensure a resilient EU economy and competitiveness.

Questions for discussion:

- Within the existing EU framework and support, how can instruments be further enhanced and streamlined to ensure that the European business case can be strengthened in order to scale up green industry and clean energy technology?
- How can the Net-Zero Industry Act improve the European business case for green industries and investments?
- How can we make sure that the actions at the EU-level promote transparent conditions, bring greater coherence, and become more predictable, while ensuring a level playing field, do not distort the Single Market and ensure long-term competitiveness?