

A Green Industrial Policy for Europe

Key recommendations for a European Green Industrial Policy:

1. Continue building on the momentum for decarbonisation, and improve Europe's resilience and competitiveness

It is crucial that EU policymakers keep making green targets a priority as we enter a new legislative term. Further policy support is needed to ensure that Green Deal legislation works as intended, not only to accelerate decarbonization, but to ensure that Europe maximizes the use of its domestic renewable energy resources.

2. Fully mobilise the potential of digitalisation for greening the European economy

Digitalisation presents untapped potential for efficiency and decarbonisation. Further support for digitalisation is needed, e.g. in the Net Zero Industry Act and the Taxonomy.

3. Accelerate and simplify permitting procedures for a broader range of green technologies and their enablers

Concrete measures to reduce the administrative complexities of permitting procedures across the Union are needed to realise the green transition. The EU and Member States must strive towards a truly harmonised and simplified system for permitting procedures.

4. Bridge the investment gap for transforming the European economy

A combination of public procurement measures and funding in the form of direct grants, tax credits, loans and financial guarantees are needed to bridge the investment gap for the green transition, at EU, national and local levels.

5. Support SMEs to achieve value chain emission reduction

High up-front costs of decarbonisation can be difficult to overcome for many SMEs. The Commission and Member States must explore how SMEs can be further supported through the transition.

The CEO Alliance was founded in 2020 as a platform of European companies coming together to make decarbonisation happen.

The Alliance welcomes the proposal for a Net-Zero Industry Act (NZIA), and commends the European Commission for its efforts to create competitive and resilient European markets for several technologies needed for the net-zero transition. However, the NZIA is not a panacea to all the challenges faced by European industry for the transition to a net-zero future.

With this paper, the CEO Alliance would like to offer our input to key items that need to be addressed to achieve a truly green and modern industrial policy for the EU.

1. Continue building on the momentum for decarbonisation, and improve Europe's resilience and competitiveness

The European Green Deal put green EU policymaking into high gear, but the work is not done. The entire Fit for 55 package must be adopted. It must include the Energy Performance in Buildings Directive and the Renewable Energy Directive, which are important pieces of the EU regulatory package to align the EU on the 55% CO2 reduction objective. Then, as we approach the end of the current EU legislative cycle and the setting of new political priorities for the next term, it is more important than ever that European policymakers keep their eyes on the target.

The EU and its Member States must continue on the path towards a fossil-free energy system and a robust, renewables-based electrification process as the cornerstone of European sovereignty, resilience, competitiveness and prosperity. The ongoing revision of the EU electricity market design, the development of the hydrogen market and the overall approach to the polluter-pays principle must be built on the Single Market and on the market principles that are the basis of the whole EU energy policy to unleash the vast potential of demand-side flexibility and promote private investments. Proper carbon pricing will stimulate investments in the development and deployment of decarbonization technologies.

Meanwhile, close attention must be paid to the real-life effects, cohesion and predictability of the policies adopted under the Green Deal, as prerequisites for competitiveness and innovation. First, the CEO Alliance calls upon European and national policymakers to work in partnership with industry to foster a robust

implementation of European Green Deal legislation. Second, rapid efforts to further strengthen or rethink European Green Deal legislation will be required in the case that some of these ground-breaking policies fail to fully achieve their intended objectives.

2. Fully mobilise the potential of digitalisation for greening the European economy

The twin digital and green transition can and should be mutually reinforcing. Digitalization is crucial for the transformation of industries – from creating a resilient energy system and electrifying the transport sector, to rolling out sustainable infrastructure and buildings – to which the CEO Alliance is contributing to through its joint project on Digital Connected Systems. Digitalization is a critical enabler for the green transition and a modern European industrial policy: connected devices, edge control and mobile technologies – not least facilitated by 5G networks – have a unique potential to enable other industrial sectors to reduce their climate emissions by at least 20%¹.

Only a limited number of enabling digital activities are currently covered in the EU's Taxonomy for Sustainable Activities, despite their key role in decarbonization and energy efficiency across economic sectors. Mobile communication networks – the backbone of digitalization – are not included at all. Some technologies and software, such as electrical equipment, power and cooling technologies for datacentres and industry 4.0 software, are poorly covered. As the Taxonomy is largely successful in boosting sustainable investments, this omission unintentionally leads investments away from the necessary development of digital technologies and infrastructure to underpin the green transition. This is in great contrast to Europe's global partners and competitors such as USA, Japan and China, which are investing heavily in digital solutions. Similarly, digitalization is only mentioned in passing in the European Commission's proposal for the NZIA. Without digitalization and digital technologies, the proposed strategic Net-Zero technologies will not be able to accelerate and to scale. Enabling technologies, such as electrical equipment, datacentre infrastructure, wireless communication networks and broadband fibre should therefore be added to the list of economic activities covered by the Taxonomy on climate change mitigation and incorporated as an enabling technology in the NZIA.

3. Accelerate and simplify permitting procedures for a broader range of green technologies and their enablers

Permitting remains a key hurdle to the realisation of industrial production and infrastructure that enables and accelerates the green transition. Lengthy and complicated processes delay or even risk the deployment of charging infrastructure for battery-electric vehicles, construction of battery plants and other green industry installations, deployment of digital infrastructure, and the rapid expansion of electricity grids required for these and for electrification in general.

Permitting procedures have recently come to the fore of EU policymakers' thinking, as reflected in RePowerEU and the NZIA. As an example, the acceleration of permitting procedures for "renewable acceleration areas" is helpful for developing renewable projects under certain conditions. Clear, fixed and ambitious deadlines for permitting at the European level is a step in the right direction, but it will have limited impact unless coupled with concrete measures and effective control of time limits accomplishment.

The EU and its Member States must strive towards a harmonised and simplified system for permitting procedures, to overcome the current landscape of differing and overlapping requirements and procedures spanning national, local and regional levels. Responsibility rests on all actors, including policymakers and EU Member States, to facilitate local support for the realisation of projects which are needed to address our common challenges and goals.

4. Bridge the investment gap for transforming the European economy

The CEO Alliance views with interest the recently launched effort to bridge the investment gap for renewable hydrogen through the EU Hydrogen Bank, and calls upon EU policymakers to explore similar measures also for other green technologies. In order to safeguard the functioning of the internal market it is essential that measures are harmonized at the EU-level. Europe needs to act as one to ensure a speedy climate transition and a competitive EU.

Looking beyond direct grants, tax credits, loans and financial guarantees, it is important to underscore that public authorities should strive to use their purchasing power to drive the green transition and support European green industries through public procurement processes, e.g. by consistently employing the Green Public Procurement

¹ https://www.gsma.com/betterfuture/wp-content/uploads/2019/12/GSMA_Enablement_Effect.pdf

framework as part of the overall toolbox for ensuring the green transition of the European economy. Meanwhile, insofar as the European Green Procurement framework remains voluntary, EU policymakers should consider revising sectoral EU legislation that sets binding targets for green public procurement – such as the Clean Vehicles Directive – to ensure that they are coherent with more recent policies developed under the European Green Deal and with future legislation.

Banks play a key role in financing the immense investments needed for the green and digital transition. Banks must be enabled and encouraged to finance not only activities meeting all the criteria of the Taxonomy, but also carbon intensive industries with credible and ambitious plans to decarbonise. A clear transition finance framework should be set to support lending for the decarbonisation of carbon intensive industries.

As noted by the European Commission, achievement of the binding 55% emission reduction target by 2030 requires additional annual investments by the private and public sectors of €360 bn on average per year, or roughly two percent of the EU's GDP. The ongoing reform of the Stability and Growth Pact should therefore enable and encourage Member States to implement the necessary reforms and investments to achieve our climate ambition.

5. Support SMEs to achieve value chain emission reduction

Decarbonization by SMEs has a significant impact on overall carbon emissions. In the large-scale transformation of the European economy, access to funding is especially important for SMEs. In many cases, making a transition to new technologies which are incentivised by various policies under the European Green Deal is profitable in the long term, as significant capital investments are compensated over time by lower operating costs. Unfortunately, the high up-front costs can be too much to overcome for many SMEs. This adds to the challenges they face in a tough economic reality while simultaneously slowing down the green transition overall.

The CEO Alliance calls upon the Commission and Member States to explore how SMEs can be further helped to switch to low carbon technologies. We also extend our support in the process.

The members of the CEO Alliance look forward to working with policymakers in the EU and Member States to contribute towards a truly Green Industrial Policy for Europe.

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About the CEO Alliance: We are a cross-sector action tank consisting of leading European companies representing key industry sectors, with ~1.6 million employees and ~EUR 560 billion annual revenue. We use our broad platform to make decarbonization of European industry happen. In spite of the challenging times we firmly believe that the only way forward for a competitive, prosperous, resilient and sustainable Europe is an acceleration of the transition to green energy and technology. Further information about our work is available on our website, www.ceo-alliance.eu.