NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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European Union: The Green Deal Industrial Plan Revealed

A MARKET INTELLIGENCE REPORT

Summary

- On 1 February 2023, the European Commission (the executive body of the European Union) unveiled a "Green Deal Industrial Plan" (the Plan). The Plan sets out the Commission's longer-term strategy to boost the competitiveness of Europe's net-zero industry and support a fast transition to climate neutrality (which it aims to achieve by 2050). It intends to achieve this primarily through a simplification of regulations and more flexibility for EU Member States to subsidise their industries.

- Behind the plan are growing concerns about the European Union's (EU) industrial competitiveness, particularly in the context of the transition to a net-zero economy. Supply chain disruptions and energy crises caused by the COVID-19 pandemic and Russia's illegal invasion of Ukraine have further sharpened focus on the EU's ability to compete globally.

- These concerns were exacerbated by the passing of the US Inflation Reduction Act (IRA), which offers tax breaks and subsidies to companies investing in clean tech and decarbonisation. Several EU leaders expressed concern that this may negatively impact the competitiveness of EU companies.

- While mostly a repackaging of existing measures and proposed legislation (and financing), the Plan does propose new initiatives such as the creation of a "Critical Raw Materials Club", and new "Clean Tech Industrial Partnerships".

- The Plan fits within a wider set of major investments in European technology leadership, including the CHIPS Act, a plan to boost home-grown design and manufacture of advanced semiconductors (also developed in response to a similar US investment), and the Carbon Border Adjustment Mechanism, intended to protect decarbonising European firms from less efficient overseas producers.

Report

Amid concerns about risks to Europe's industrial competitiveness in the face of the green and digital transitions, the timing of the Green Deal Industrial Plan has been linked to the need for the EU to respond to the US IRA. While EU leaders have welcomed the IRA's overarching climate focus and ambition, they have expressed concerns over its effect on third countries. European Internal Market Commissioner Thierry Breton deemed it an "existential challenge [to Europe]" when it was released in August 2022. Commission President Ursula Von Der Leyen also called for a "structural answer" to the "new assertive industrial policy of our competitors". Speaking to the European Parliament about the Plan, Financial Services Commissioner Mairead McGuinness said that it was a sign of a "future-focused" EU that was "less naïve about how the world is today".

The Plan is based on four pillars:

i. **A predictable and simplified regulatory environment** - this pillar encompasses proposed new legislation such as the Net-Zero Industry Act (to identify goals for net-zero industrial capacity and provide a regulatory framework suited for its quick deployment), and the Critical Raw Materials Act (to ensure sufficient access to those materials, like rare earths, that are vital for manufacturing key technologies), as well as a reform of electricity market design;

ii. **Speeding up access to finance for clean tech production in Europe** – including by relaxing EU state aid (subsidy) rules, repurposing existing EU funds, and establishing a European Sovereignty Fund;

iii. **Enhancing skills** in strategic industries; and

iv. **Open trade for resilient supply chains** – continuing to develop the EU's network of Free Trade Agreements, exploring the creation of a "Critical Raw Materials Club", and creating new Clean Tech/Net Zero Industrial Partnerships.

Since most industrial policy and investment is still driven by Member States rather than at the EU-level, the section of the Plan that has generated the most commentary is the proposal to relax subsidy rules under a new 'temporary crisis and transition framework'. This would make it easier for Member States to subsidise clean technologies such as batteries and wind power. Some (especially smaller) Member States have expressed concern about relaxing subsidy rules, fearing the Single Market will be distorted through spending by larger, wealthier countries. An increase in subsidy levels for European producers in sectors deemed critical to the green transition risks undermining the competitiveness for New Zealand and other foreign exporters without similar

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For long-time observers of climate policy, this “race to the top” approach to tackling climate change is relatively new. Instead of seeing the climate challenge as a collective action problem requiring shared sacrifice, fixing the climate is increasingly viewed as having significant economic, security and geostrategic benefits. Securing critical parts of the green technology supply chain is also a key motivating factor. Analysts suggested that the IRA was designed partly to enhance the US’s competitiveness against China in green industries, and with the EU now in the mix, means the three largest economies in the world are all trying to ride the green transition wave.

There may therefore be future opportunities for New Zealand companies in the context of Pillar 4 (open trade for resilient supply chains), including the concept of Clean Tech/Net-Zero Industrial Partnerships.

Going forward, the EU-NZ FTA may also create further opportunities for enhanced cooperation and supply chain resilience with respect to critical raw materials and net-zero technologies. A dedicated chapter on energy and raw materials provides a framework for trade and investment in renewable energy sources, enables mutual and non-discriminatory access to renewable electricity transmission and distribution infrastructure, levels the playing field in the cost of energy goods and raw materials across the two markets, promotes collaborative research and development (R&D), and supports cooperation in international fora. The Trade and Sustainable Development (TSD) chapter will also underpin further cooperation in trade-related aspects of environmental policies, bilaterally, regionally, and in international fora.

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