Make the Clean Industrial Deal work for the EU

Challenges for the European economy

- **Energy prices are twice as high in the EU than in the United States and China** due to a costly dependence on gas, oil and coal imports. Similarly, the high dependence on imported materials makes the EU industry vulnerable to supply shocks.
- The **EU risks losing out on the global net-zero industrial race** due to the lack of integrated value chains. China has developed an aggressive industrial strategy on net-zero technologies, generating economies of scale and flooding the global market. The US is taking the innovation leadership through the Inflation Reduction Act.
- The end of NextGenerationEU in 2026 and restrictive fiscal measures in Member States risks leading to **underinvestment and thus jeopardising EU's competitiveness**. In addition, not all Member States have sufficient fiscal capacity to invest and attract the net-zero companies, which could lead to a two-speed Europe.

What pillars for a Clean Industrial Deal?

President von der Leyen announced a Clean Industrial Deal in the first 100 days of the new Commission as a response to these challenges. Finding the right policy mix will be important to reposition the EU as a net-zero powerhouse and reindustrialise its economy. As stated in the mission letter for Stéphane Séjourné, Executive Vice-President-designate for Prosperity and Industrial Strategy, a number of key proposals will be presented. **Strategic Perspectives recommends the three following pillars**:

1. **Investing in Europe's single market through a Competitiveness Fund**

- **Establishing the Competitiveness Fund to start in 2027** by extending the financial governance and sources of NextGenerationEU and thus not make it dependent on the lengthy negotiations on the EU budget.
- Mobilising **at least €668 billion by 2040** to build a net-zero industry that contributes to a 90% climate target, implement the Net-Zero Industry Act (NZIA), and support energy intensive industries to decarbonise.
- **Targeting clean technology value-chains**, especially where domestic production creates higher independence or generates an important competitive advantage. It can take the form of dedicated "zero-carbon manufacturing calls" to support operation (OPEX) and capital (CAPEX) finance.
- Easing access to finance and coordinating national and European fundings through the launch of a **European One-Stop-Shop**.

2. **Building and consolidating the net-zero industry value chains and innovation**

- **Reforming the Important Project of Common European Interests (IPCEIs)** to achieve economies of scale and build entire value chains for net-zero technologies. A stronger EU supervision and a simplified framework can help pool more resources from companies and Member States.
- **Redesigning public procurement rules** could inject €86 billion per year into the European economy to de facto support innovative, greener and more circular products made in the EU. Public procurement and tenders could implement lead market standards a few years in

advance to initiate and structure green markets. In addition, **an 'EU value chain bonus'** can be introduced, rewarding zero-emission products that have low emissions and a minimum number of manufacturing steps within the EU.

- **Defining recyclability targets to embrace the circular economy** has the potential to generate new innovative economic activities and reduce strategic dependence on critical materials. 68% of steel, 64% of glass and 40% of chemicals could be recycled by 2040.

3. **Launching an Industrial Decarbonisation Accelerator Act focusing on electrification and lead markets**
    - **Setting zero-emission electrification targets per sector** will be key to reduce their dependence on gas, coal and oil use. 63% of the industry's energy demand could be supplied by electricity by 2040 compared to 33% today according to our modelling. This is the case for low temperature industrial heat processes in the food, beverage, packaging and textile sectors as they could be largely decarbonised by 2035 if stronger incentives are set.
    - **Implementing lead market standards** such as a carbon footprint limit for battery production, circularity standards for solar panels, or a quota of green or recycled steel for the production of electric vehicles or wind power by the end of 2025. This could stimulate innovation and help European companies to compete in another factor than only cost.
    - **Supporting heavy industries through a European framework for Carbon Contract for Difference (CCfD)** to build a stronger business case for green products and decarbonisation. It can be explored until the CBAM is fully implemented. A sector by sector approach brings the advantage to provide tailored-made support and prevent the fragmentation of the single market.

Strengthening EU economic security as a benefit

The Clean Industrial Deal arrives at the right time to reposition the EU in this global race and reindustrialise its economy. Strategic Perspectives' recent report 'Forging Economic Security and Cohesion in the EU' shows that a European industrial strategy combined with a 90% climate target can transform Europe from a green consumer to a green producer in a decade and reduce its geoeconomic dependencies.

- Imports of zero-carbon technologies such as heat pumps, electric vehicles and batteries could be reduced to **annual savings of at least €91 billion by 2040**. Similarly, by embracing the circular economy, annual imports of materials such as aluminium, iron and copper can be reduced by at least €42 billion by 2040.
- This will contribute **to de-risking from China, competing with the US** and strengthening strategic autonomy.
- It can also **create an additional 1.6 million green jobs** in net-zero manufacturing by 2035, rising to 2.1 million by 2040.