

Position

# On the European Commission's Green Deal Industrial Plan



The European Commission presented several industrial policy papers in spring 2023:

- **on 1 February**, the 'Green Deal Industrial Plan' (GDIP)
- **on 9 March**, (as part of the GDIP), the "Temporary Crisis Framework for State Aid to Support the Economy in the Context of Russia's Aggression against Ukraine – Crisis Management and Shaping the Transition"
- **on 16 March** (as part of the GDIP), the proposal for the 'Net-Zero Industry Act' and a Critical Raw Materials Act

With this position paper, the VDA comments on these documents.

Berlin, May 2023

## Executive Summary

The recent industrial policy initiatives of the USA and China (IRA, Five-Year Plan 2021–2025) present the EU with an unprecedented great challenge in the global competition of production sites. **It is welcome that the EU Commission has recognised this and, with the presentation of the 'Green Deal Industrial Plan', not only wants to accelerate the transformation towards climate neutrality, but also provide an answer to this challenge of site competition.** In this respect, the plan is a very noteworthy advance that tends to improve the attractiveness of the EU's location. It is, however, particularly lagging behind in terms of opportunities to promote transformation in existing EU industrial centres. The plan consists of four pillars:

- The core of Pillar 1 of the plan is the acceleration of **approval for new and expansion investments**. To this end, the Commission is taking the right approach by providing **Member States** with comparatively **reduced deadlines** within **which they must decide on applications for the construction or extension of 'net-zero carbon' production facilities**. Although the approval accelerations also apply to all production facilities for technologies required for low-carbon or CO<sub>2</sub>-free vehicle propulsion (e.g. batteries, electrolysers, fuel cells), they apparently do not apply to production facilities for the actual vehicle production. This could be improved by the Commission.

- In the context of Pillar 2 (faster access to funding), the Commission is **revising the aid framework** so that entrepreneurial investments in the production of climate protection technologies can be stimulated more than previously by means of needs-based support – not least in order to avoid a migration of production outside the EU. **This is welcome.** However, the aid intensity and ceiling specified for the upscaling of the technologies relevant to the transformation is not likely to be sufficient to avoid a loss of production in all cases. The problem is that better funding opportunities are limited to designated EU-assisted areas and are therefore not available for existing industrial centres. In addition, the list of products cited by the Commission as suitable for the promotion of production expansion in the future is incomplete from the point of view of the automotive industry. *‘Batteries’* and *‘electrolysers’* are listed among other items, but permanent magnets for electric vehicles and the creation of production facilities for the production of electric vehicles are not listed.
- It is gratifying that, with Pillar 3, the Industrial Plan also addresses qualification **assurance.** However, the EU’s options for action are limited here.
- **It is also welcome that, under Pillar 4** (*‘open trade and resilient supply chains’*), **the Commission is committed to free trade** and is announcing that it will move forward with the implementation of free trade agreements. After all, because of its high export ratio, the EU relies on open markets, free trade and flourishing exports to defend its prosperity model more than the USA and China. At the same time, however, there has also been a recent shift in the EU towards potentially restrictive instruments (instruments to *‘protect the internal market against the unfair trading practices of other global players’*) to which the Industrial Plan is also committed. However, from the automotive industry’s point of view, these instruments should only be used as a last resort and only in cases of demonstrable distortions of competition.

## Background

With the ‘Green Deal Industrial Plan’, the Commission is virtually developing and concretising its plans outlined in the revised Industrial Strategy of May 2021 to support industry on its path to climate neutrality – also in light of the political events that have taken place since then: On the one hand, Russia’s war of aggression against Ukraine has reinforced the realisation gained during the coronavirus pandemic that supply chains are vulnerable and that the supply of industry with wholesale products must be more resilient and protected against geopolitical risks. On the other hand, other players such as the USA and China have also prioritised climate protection and the development of clean technologies in their political agenda to a greater extent than before (USA: IRA, China: Five-Year Plan 2021-2025) and challenge the competitiveness of EU industry with their state investments as well as with their partially protectionist measures in this area. The ‘Green Deal Industrial Plan’ is based on four pillars:

- **Pillar 1: Creating a more predictable and simplified regulatory environment**
- **Pillar 2: Faster access to sufficient funding**
- **Pillar 3: Improving employee qualifications**
- **Pillar 4: Open trade and resilient supply chains**

The plan is initially only a non-legislative communication from the Commission, which does not require consultation or approval by Parliament or Member States. The main elements of Pillars 1 and 2 of the plan have already been clarified by the Commission through

- the proposal for a *regulation establishing a framework for measures to strengthen the European ecosystem for the production of net-zero technology products (Net-Zero Industry Act)* and the proposal for a 'Critical Raw Materials Act' from 16 March 2023, and
- the communication from the Commission on the *'Temporary Crisis Framework for State Aid to Support the Economy in the Context of Russia's Aggression against Ukraine – Managing Crises and Shaping the Transition'* of 9 March 2023.

The Commission Communication on the Temporary Framework for State Aid was already put into force with its publication on 9 March 2023. A consultation procedure was opened regarding the 'Net-Zero Industry Act', which ends on 27 June 2023. The Net-Zero Industry Act will then be negotiated and adopted in a triologue between the Commission, Parliament and Member States. The opportunity to give feedback on the Critical Raw Materials Act (CRMA) will also be available until 22 May 2023. The VDA had already participated in an initial consultation last year. The CRMA should also be decided promptly in the triologue. Pillars 3 and 4 have not yet been further specified.

## Basic Classification

It is **welcome that**, by presenting the 'Green Deal Industrial Plan', the **Commission is concretising its need for action in order to support the EU industry in its transformation towards climate neutrality and see the recent industrial policy initiatives of other global players as an additional incentive to secure the competitiveness of the EU as an industrial site**. To this end, the plan has many appropriate measures, but it also has a number of weaknesses:

- With the presentation of the plan, the Commission shows that it has recognised that the EU is in increasingly fierce competition, in particular with the US and China. To this end, their plan points in the right direction, but in some cases it falls short of the requirements: with the redesign of the state aid framework, it now enables the promotion not only of the development, but also the upscaling of transformation-relevant technologies – a novelty of its funding policy. However, the newly created funding opportunities are not likely to be sufficient for avoiding investment decisions in favour of its global site competitors and against the EU in all cases. As the sharpest weapon, the Commission has prepared the concept for the 'Matching Aid Clause', which aims to establish a level playing field with non-EU sites for a specific investment project. However, its application is limited to the designated EU-assisted areas, so that it has no benefit in supporting the upscaling of transformation technologies in the existing EU industrial centres and thus essentially comes to nothing.
- **Industrial policy** is not only aimed at aligning industry with certain political and social goals. It is also based on the logic of developing a time advantage over competitors and a temporary unique position on the presumed future markets in order to generate export revenues. This claim is also formulated in the Industrial Plan (*'always one step ahead of the game', 'pioneering role'*). **However, with this strategy to generate export revenues,**

**it is imperative to achieve the greatest possible degree of technology neutrality** in all dimensions – regulation and standardisation, promotion, and securing the supply of preliminary products. Otherwise, there is a risk that, in retrospect, it will have to be noted that a technology that has possibly prevailed in this country, but not in global competition, has been favoured. Only technology neutrality ensures the flexibility in the economic production structure that is necessary to react and ‚be there‘ when technology favourites emerge in global competition in later years. The same precautionary principle applies here as with the supply of preliminary products: diversification counts. Unfortunately, the Industrial Plan does not emphasise technology neutrality as a central guiding principle. This would also have provided an opportunity to highlight the importance of the emissions trading system not only for an economically cost-effective, but also a technology-neutral CO<sub>2</sub> reduction and to commit to a long-term integration of the two emission trading systems.

- **The Green Deal in general and the Industrial Plan in particular assign, first and foremost, a climate-protecting role to the industry**, while maintaining competitiveness with the other international industrial regions during the transformation process. It is implicitly assumed that the transformation as a by-product automatically generates growth as well (see above). **It would have been desirable for the Commission to include growth as an explicit objective of its policy in its plan.** It could also have made up for the failure to define a long-term goal for industrial strengthening in its industrial strategy of 2021, although it defined a long-term goal for CO<sub>2</sub> reduction (climate neutrality by 2050). Only through defining such a target (e.g. x% growth in gross industrial value added by year x) does the Commission commit itself to establishing real pressure for action as well as public and political attention for the need to strengthen the EU industry. The abandonment of such a target definition, as the Lisbon Strategy, for example, once did in 2000 (the ‚most competitive economic region in the world until 2010‘, 3% economic growth p.a.), gives the impression that the Commission does not want to impose this pressure for action – unlike in the case of CO<sub>2</sub> reduction – as a precautionary measure. In doing so, it would have every reason to target industrial economic growth with all its forces. In the past decade, it has been the slowest-growing economic region in the world after Japan. It should aspire to not only have the world’s most ambitious climate targets, but also the most ambitious growth targets.
- The ‘Green Deal Industrial Plan’ aims to support industry in its transformation towards climate neutrality. At the same time, however, the industry is also facing the challenge of digitally transforming its production and products. This digitalisation is addressed at various points in the ‘Green Deal Industrial Plan’. However, no strategic measures have been defined here. It would be desirable for the Commission to make up for this in the near future by also presenting a plan for digital transformation as a counterpart to the current plan – not least because digital transformation can contribute to the success of the transformation towards climate neutrality.



## For assessment in detail:

### Pillar 1: Creating a more predictable and simplified regulatory environment

#### 'Net-Zero Industry Act' - the acceleration of approval procedures selects the appropriate approach

##### Commission action:

In its Green Deal Industrial Plan, the Commission announces that a '*Net-Zero Industry Act*' will facilitate the industrial production of 'net-zero carbon technologies', e.g. *,by shortening the duration of the approval procedures* (of national authorities) for adapting production capacities'. On 16 March 2023, the Commission presented its proposal for a regulation on the '*Net-Zero Industry Act*'. In essence, this provides for the following:

- The Commission defines 'net-zero technologies' as *,renewable energy technologies, electricity and heat storage technologies, heat pumps, grid technologies, renewable fuel technologies of non-biological origin, sustainable alternative fuel technologies, electrolysers and fuel cells, nuclear energy, carbon dioxide capture, use and storage technologies, and energy efficiency technologies of energy systems'*. In this context, the Commission refers both to final products and to components/preliminary products as well as the machinery required for their production.
- The objective of the proposal is that *,by 2030, the production capacity of the Union's strategic net-zero technologies will meet at least 40% of the Union's annual deployment needs for the technologies necessary to achieve the Union's climate objectives'*.
- In order to expedite approval procedures, Member States must *,designate a competent national authority responsible for facilitating and coordinating the approval procedure for manufacturing projects with net-zero technology...'*. This is intended to *'serve as the only point of contact for the applicant in the approval procedure (one-stop shop)'*.
- The authority must decide on an application for a new investment within a maximum of 18 months and on an application for a pure expansion of existing capacities within a maximum of 9 months. As a result, the Member State is obliged to concentrate its human resources available for the review and approvals primarily on the processing of applications for 'net-zero technologies'.
- Furthermore, there are also strategic '*net-zero technologies*'. They are a subset of the list of 'normal' net-zero technologies cited above (excluding nuclear technology and renewable fuel technologies of non-biological origin or sustainable alternative fuel technologies). This also includes *'batteries/storage technologies'* as well as *,electrolysers and fuel cells'*. With these technologies, a company can, under certain conditions, have its investment project recognised as 'a net-zero strategic project'. To do this, however, it must provide various evidence, for example, on the importance of the project *,for the resilience of the EU energy system'* or for *,competitiveness and job creation'*. *In addition, a business plan must be*

*submitted ,assessing the financial viability of the project in line with the objective of creating quality jobs‘.*

- The national body must decide within one month whether the project will be recognised as a ‘*net-zero strategic project*‘.
- If a project is recognised as a ‘*net-zero strategic project*‘, the national licensing authority will have to make a decision on the approval of the investment (new construction or extension) even faster than in the case of ‘normal‘ net-zero technologies.

### **VDA assessment:**

It is very **welcome** that the Commission recognises the administrative process for approving the modernisation or extension of production facilities as an important lever in the acceleration of the ramp-up of transformational technologies and seeks to help simplify and shorten this process at the Member State level. Currently, approval procedures can sometimes take several years. This makes investment planning more difficult for companies, hinders a rapid transformation and, last but not least, harms the EU as an investment location. The Commission takes the right approach to the acceleration of the approval process by setting clear deadlines for the approval period for Member States. In this manner, they can concentrate their human resources available for the review and approvals on the processing of applications for ‘net-zero technologies‘ and thereby prioritise them in terms of time.

Ultimately, however, the practicality of the approach will also depend on whether the Member States have the necessary human resources at all, especially since one reason for the current long approval periods is the present shortage of specialists with appropriate scientific and technical training in the public sector.

The list of ‘**net-zero technologies**‘ cited in the proposal for a regulation contains all the key technologies required for low-carbon or zero-carbon vehicle propulsion (e.g. ‘*electricity storage technology*‘). However, it apparently does not refer to production facilities for the actual vehicle production. Investments in the expansion or new construction of plants for the construction of electric vehicles (joining the body, electric motor and battery) would therefore have no prospect of faster approval times (and would possibly even wait longer than today for approval, because the approval authorities are concentrating their resources on ‘*net-zero technologies*‘). However, it does not make sense to provide approval acceleration only for parts of the value chain, but not for the last value creation stage of the chain, since production in the earlier stages of the chain cannot then be further processed at the rear, thus bringing the chain to a standstill as a whole. With the proposal for a regulation, the Commission has stated its intention to include the entire value chain for ‘*net-zero technologies*‘ and has rightly considered taking all its upstream stages (‘*net-zero technologies*‘ themselves, as well as their components and the machinery needed to produce them) into account. But it also has to consider the last (and downstream) stage.

It is also unclear how to understand the objective defined in the proposal that suggests the production capacity of the Union’s strategic net-zero technologies should reach at least 40% of the Union’s annual deployment needs for the technologies by 2030. It must be ensured that the approval acceleration measures continue to apply even if this value is exceeded in the case of a technology. Finally, the acceleration of approval procedures is a permanent task that does not become obsolete after reaching a threshold.

Nor is it **certain that the questions that companies** have to answer **under the proposed regulation in order to** obtain the preferred **'net-zero strategic project' status** for a given investment project can in all cases **be adequately answered** by companies (e.g. *'Does a given investment project increase the production capacity of a part of the value chain of a "net-zero technology" for which the Union is highly dependent on imports from a single third country?'*). Questions also arise concerning what the Commission means by a 'business plan' that must be submitted by companies. It should be ensured that companies are not forced to disclose company-sensitive data or trade secrets.

**It is correct to consider standardisation a strategic instrument, but it must be initiated by industry**

#### **Commission proposal:**

As another measure under the 'Net-Zero Industry Act', the Commission identifies the development of standards. The 'Green Deal Industrial Plan' states that the Commission is considering *,empowering itself to call for the introduction of European standards of key technologies'.*

#### **VDA assessment:**

The Commission rightly stresses that the development of standards is not least also a tool to generate advantages in global competition.

In addition, European standards make a significant contribution to the creation and consolidation of the European single market and can contribute to both the avoidance of strategic dependencies and the faster application and dissemination of technologies relevant to transformation. In order to achieve the aspiration of global technological leadership, Europe must ensure that its own standards are internationally recognised, ideally by issuing European standards in parallel via the established international standardisation organisations ISO and IEC.

The success of standardisation is based on the established bottom-up approach, i.e. the economy recognises the need based on its expertise and defines the standardisation project on the basis of its product and technology strategy, as well as the knowledge of the market options. Standards initiated in this way are then widely applied quickly. **The 'top-down approach', apparently favoured by the Commission, should therefore remain the exception.**

Standardisation work ties up resources and, above all, valuable development capacities. In addition, high costs arise in particular from engagement at the European and international level. One way to strengthen the standardisation work would therefore be to follow the example of Asia and financially promote engagement. While in Japan, for example, both the industrial engagement and the organisational-administrative engagement of standardisation service providers are promoted, the economy in Europe bears essentially all the costs associated with the standardisation work. By providing targeted, flexible support for standardisation, the Commission can significantly support European technological leadership.



## Welcome the establishment of ,regulatory sandboxes‘

### Commission action:

In the Green Deal Industrial Plan, the Commission also announces that it will enable the establishment of ,*regulatory sandboxes*‘ to simplify and accelerate the testing and certification for placing new technologies on the market (i.e. ‘real-world laboratories’ where new technologies can be tested for their technological function under real-world conditions in day-to-day operation, but also for their economic viability in model operation prior to their market authorisation). This was made clear by the presentation of the ‘Net-Zero Industry Act’ of 16 March 2023. In this way, it facilitates the establishment of ,*regulatory sandboxes*‘ for all the technologies it refers to as ‘net-zero technology’ (see above (p. 6)) and also seeks, where possible, to promote the cross-border design of sandboxes (.....‘ *shall be designed and implemented in such a way as to facilitate, where appropriate, cross-border cooperation between the competent national authorities*‘).

### VDA assessment:

This is welcome. It is important to move beyond research and development to initialisation, planning, implementation and the rollout of innovative technologies. However, the idea of using regulatory sandboxes is not new and has been used in many EU countries for years. In an EU-wide internal market, however, it is necessary to think about regulatory sandboxes not only regionally or nationally as has been the case so far, because the innovations will later also be used throughout the EU. However, it would have been desirable if the Commission had not been so restrictive in its choice of technologies for these ‘sandboxes’, but had also taken into account transformation technologies in a broader sense, such as the networking and communication of vehicles with each other. This technology has the potential to liquefy traffic and thus reduce CO2 emissions.

## European Critical Raw Materials Act (CRMA)

### Commission action:

As part of Pillar 1 of its ‘Green Deal Industrial Plan’, the Commission also refers to the upcoming Critical Raw Materials Act (CRMA). It also submitted a proposal for a regulation on this subject on 16 March 2023. In essence, this provides for the following:

- With the CRMA, the Commission wants to strengthen the resilience of the supply chains of critical raw materials. For the first time, the Commission distinguishes between critical and strategic raw materials and identifies four fields of action: the expansion of domestic raw material production, the diversification of raw material imports, the expansion of raw material monitoring and the expansion of the circular economy. Accordingly, self-sufficiency goals (demand coverage by 2030: exploration 10%; refinery 40%; recycling 15%) and maximum import quotas (max. 65% from one country) for strategic raw materials are defined. In addition, a new Critical Raw Materials Board, composed of senior representatives from Member States, will support the Commission in setting up raw material monitoring and identifying strategic raw material projects that will benefit from easier access to capital and faster approval procedures. The implementation of the raw material projects should meet high sustainable standards.

- Member States are encouraged to upload information on raw material deposits, projects and content stockpiles, as well as results of stress tests to be carried out, in a central dashboard. In addition, Member States should provide the Commission with information on strategic raw material reserves. On the basis of this information, the Commission will issue non-binding recommendations on the development of stockpiling strategic raw materials.
- The industry is also called upon to conduct stress tests and discuss the results at the Board level. For permanent magnets, information obligations relating to composition, localisation in the product and disassembly of the magnets are provided for the distributor. The Commission also plans for penalties for companies that do not comply with the requirements of the regulation, but it leaves the definition of penalties to the Member States.
- An independent commodity fund is not planned. The CRMA refers to existing funding pots, such as InvestEU or Global Gateway, for the provision of financial resources. In order to gain a better negotiating position on the international raw materials market, the joint procurement of raw materials in which both companies and Member States can participate directly is discussed.

#### VDA assessment:

The Commission correctly identified the three pillars of sustainable raw material supply (raw materials from abroad, domestic raw material extraction, circular economy) and aligned the measures accordingly in the CRMA. A list of strategic raw materials is welcome in any case, even if it does not provide a significant limitation with a total of 28 items compared to the previous list of critical raw materials (30 items).

The 'one-size-fits-all' goals of self-sufficiency for strategic raw materials have not been achieved, as different market conditions apply to each raw material. The **goal of diversification is also too ambitious for many strategic raw materials**, because the market shares of individual countries of more than 80% often occur. The recycling targets for technologies that are in high gear (e.g. electric cars and wind turbines) are not achievable (for battery raw materials, the targets are even higher than in the recently adopted Battery Ordinance (cobalt: 16%, lithium: 6%, nickel: 6%)). Due to their long service life of an average of 15 years, electric vehicles, for example, will not reach their end until well after 2030. In principle, the **closing of the material circuits** is not a lifeline.

It is striking that **no support measures** which actively support the achievement of these objectives **are defined**, but that reference is made to the Member States. A patchwork carpet, hidden 'local content' requirements and state stockpiling threaten here, thus exerting further pressure on the already tense commodity market as new buyers.

The creation of a dashboard for the exchange of information on the potential of raw material in the EU will create more transparency, but the publication of the results of stress tests goes too far. The public **recommendations on the development of strategic raw material reserves can also lead to European vulnerabilities becoming public** and a weakening of the European negotiating position.

A strong focus on sustainability and ESG requirements must always be seen in the context of an international legal framework and must not lead to an additional bureaucratic burden for companies.

**The great political and strategic impetus** that would have to come from the EU CRMA **will not be able to be implemented, in particular due to the lack of an inherent commodity fund**. In addition, a direct investment in strategic raw material projects **within the framework of an independent European agency for strategic raw material projects** would be expedient.

### **Commitment to infrastructure network expansion is correct**

#### **Commission proposal:**

In the context of Pillar 1, the Commission also explicitly underlines the importance of re-fuelling, charging and electricity infrastructures and rightly states that this is the key to the success of the transformation.

#### **VDA assessment:**

In fact, in all surveys on the reservations against electric cars, the lack of charging options is mentioned as a main reason (between 64% and 76% of the population in Germany) to refrain from acquiring them for the time being. There is an enormous backlog in the development of charging infrastructure in the EU.

However, the challenge is not merely to increase the number of charging points in the EU. In an economic area such as the EU, care must also be taken to ensure that charging points are distributed as evenly as possible (currently, many EU-wide charging points are concentrated in Germany, France and the Netherlands). It is therefore welcome that the Commission is using the 'Green Deal Industrial Plan' as an opportunity to call on Member States to adopt the AFIR soon and that it announces that it will continue to examine the funding needs for the 'Connecting Europe' Facility, in order to 'further strengthen hydrogen and electricity infrastructures'. The AFIR should also agree on the more ambitious proposal of the EU Parliament.

## Pillar 2: Faster access to sufficient funding

**Adapting the aid framework is an important step; however, aid opportunities to support the upscaling of transformation technologies through existing industrial centres are lagging behind.**

### Commission action:

In the Green Deal Industrial Plan, the Commission announced that it would give Member States more flexibility in granting aid for climate-related purposes by adapting the aid regime and extending the validity of this adapted regime for a limited period from the end of 2023 to the end of 2025. In doing so, it not only aims to accelerate the development of climate-neutral technologies, but also to explicitly enable funding in response to *unequal conditions of competition through foreign subsidies*, which, unlike in the past, not only benefit research and innovation as well as the use of renewable energies and the associated infrastructure, but also the production capacities in this sector. **Accordingly, the Temporary Framework for Aid (TCF), which, based on the current legal situation, would have expired on 31 December 2023, will be extended in parts and its content will be further developed into a 'Temporary Crisis and Transition Framework (TCTF)'. On 9 March, the Commission presented its communication on the TCTF. It also came into force on the same day.** As a result, the further development of the TCTF, limited until the end of 2025, will facilitate and accelerate aid through four approaches:

1. *'Simplification of aid for the development of renewable energies'*. To date, the TCF has made it possible to grant aid for the production of hydrogen, biogas and biomethane, among other things. With the further development of the TCF into a TCTF, there will be investment and operating aid. They are intended to build on three points: firstly, *'renewable energy production as referred to in Article 2.1 of Directive 2018/2001 (REDII), including the production of renewable hydrogen and fuels produced from renewable hydrogen (but not the production of electricity from renewable hydrogen)'*; secondly, *'electricity and heat storage'*; and thirdly, *'storage of renewable hydrogen, biofuels, bioliquids, biogas (including biomethane) and biomass fuels, of which at least 75% must originate on an annual basis from a directly connected facility for the production of the substances concerned'*.
2. *'Aid for the decarbonisation of industrial processes through electrification and/or the use of renewable and electricity-based hydrogen and for energy efficiency measures'*. This concerns the decarbonisation of the production process itself (i.e. emission reduction of the factory/production plant).
3. *'Aid for accelerated investments in sectors of strategic importance for the transition to a CO<sub>2</sub>-neutral economy'*. New investment aid for production will be made possible for certain sectors of strategic importance for environmental change and where there is a risk that they will migrate to third countries without appropriate support. Aid may be granted either as investment aid for entirely new projects or to extend or accelerate existing projects. The Commission identifies as eligible items *'the manufacture of batteries, solar panels, wind turbines, heat pumps, electrolysers and equipment for CCUS'*, *'the manufacture of key components designed or primarily used as direct inputs for the above-listed equipment'*

*and ,the manufacture or recovery of relevant critical raw materials for this equipment'.*

This type of aid may be granted in amounts up to 15% of the eligible costs (in the case of a direct grant; up to 20% in the case of aid in the form of a tax benefit)(in both cases up to a maximum of €150 million per company per Member State). Slightly higher aid intensities and ceilings are only permitted for investments in designated EU-assisted areas, i.e. those areas (referred to in Germany as ‚governmental districts‘ or, in cases of a level below, ‚rural districts‘) which have a below-average per capita income compared to the EU, an unemployment rate above the national average or an extremely low population density.

4. In addition, a ‚Matching Aid Clause‘ applies to the sectors referred to in point (3): if a company in a third country (non-EU country) would be offered higher amounts of aid for a comparable investment, Member States may, on the basis of an individual authorisation by the European Commission, further increase their aid amounts in order to achieve a maximum of the amount of aid from the third country. However, the application of this ‚Matching Aid Clause‘ is also limited to investments in designated EU-assisted areas (or if the investment involves several Member States and also includes a designated assisted area).

In addition to the further development of the TCF into a TCTF, the **Commission is expanding the funding opportunities that Member States can grant under the General Block Exemption Regulation (GBER)** (under the GBER, Member States have already been able to grant funding without notification by the Commission if the funding was granted for purposes defined in the GBER and did not exceed the stipulated maximum amounts (‘thresholds’)).

- In the section on environmental and climate aid, the new GBER contains a whole series of new purposes that can be exempted from notification in the future under the GBER, including in the areas of decarbonisation, the expansion of renewable energies or environmentally friendly mobility. For SMEs, the new GBER also includes the option to exempt aid measures to compensate for high energy prices.
- In addition, there is an increase in aid intensities (percentage of aid to eligible costs) for various funding purposes and an extension of the scope of the GBER by increasing the ‘thresholds’. For example, the GBER thresholds for research, development and innovation aid and for environmental and climate protection aid (e.g. for charging and refuelling infrastructures) will be significantly increased (up to €55 million for research, development and innovation and €30 million for charging and refuelling infrastructures).

#### **VDA assessment:**

From the point of view of the VDA, the Commission generally takes the appropriate measures to accelerate industrial transformation and secure the industrial location of the EU:

- **Extending the scope of the TCTF to all renewable energies (as defined in RED II) and the storage of renewable hydrogen and biofuels is an important step not only in defending the market position in the production of these renewable energies, but also in achieving climate targets in the transport sector and, through the use of hydrogen as energy storage, also contributing to the success of the energy transition as a whole.**
- It is also true that the Commission facilitates opportunities to promote measures if they lead to energy or CO<sub>2</sub> emission savings in the production process.



- **The measures taken under the above points (3) and (4)**, which were not provided for in the previous state aid framework, are a true novelty in EU state aid law. **For the first time, the opportunity to promote new and expansion investments in production facilities is created if transformation-relevant products are thereby produced.** Previously, aid (e.g. through the Climate and Environmental Aid Guidelines or the GBER) was only possible in two main cases: either the promotion of the production process of a plant itself must become more environmentally friendly than before or R&D activities are promoted, with which a technological leap is achieved in the production process itself or in the resulting manufactured products. With this new funding instrument, the Commission is also explicitly responding to *,unequal conditions of competition through foreign subsidies'*. It seems to be referring to the US IRA. Over the next 10 years, it will provide US\$369 billion for investments in climate change mitigation. In this framework, around US\$2 billion in subsidies are also planned for the conversion of automobile plants to the production of clean vehicles. From the VDA's point of view, these IRA subsidies are principally suitable for impairing the competitive position of the industrial location of the EU. They create the risk that future decisions on the creation and expansion of production capacities tend to be unfavourable towards the EU and that the EU will lag behind in the development and scaling of climate-relevant technologies worldwide. **It is therefore welcome that the Commission adapts its own aid framework with the 'Green Deal Industrial Plan' and aims to neutralise this disadvantage and re-establish a 'level playing field' with its global competitors – particularly since the EU industry is already facing higher transformational burdens than its competitors in other industrial regions of the world – firstly because the EU has set the most ambitious CO2 targets in the world for itself and, secondly, because CO2 reduction in Germany and the EU, unlike, for example, in the USA, is organised not only by means of investment incentives but also by means of costs (ETS).** With regard to the new type of aid, it should be noted positively that the Commission is not tempted to enter a subsidy race (maximum amount of aid may be raised to the same level for the same project outside the EEA (see above)). With its high export share (EU: more than 16%, USA: 11%), the EU in particular is dependent on internationally open markets and cannot be interested in free trade being damaged by a possible spiral of mutual reaction measures.

In detail, however, the VDA considers that the following points need to be critically examined by the Commission:

- **The list of sectors eligible for accelerated investment aid (3 and 4 above) lacks ,permanent magnets for electric vehicles' and ,intermediate raw materials'.** Permanent magnets are an important component of an electric motor. They play a critical role in traction motors and thus in the decarbonisation of the transport sector. Although the list also includes *,the production or recovery of relevant critical raw materials for the (aforementioned) equipment'*. However, it is important that not only the raw materials per se are referred to, but also the already processed intermediate raw materials. Because raw material availability in itself is only a necessary but insufficient condition for the strategic raw material sovereignty of the industrial location EU. To this end, there is an urgent need for further processing of these raw materials within the EU. **Furthermore, the list does not include production facilities for the production of electric vehicles or their components (beyond the production of batteries)**, although the conversion of plants for the production transition from internal combustion vehicles to electric vehicles or the new construction of plants is associated with high costs. In addition, the transition devalues some of the production capital thus far associated with 'combustion production' – all the

more so against the background that the CO2 fleet target has been drastically tightened by politicians in just a few years.

- **The aid amount, which is normally a maximum of 15% of the eligible costs, and the ceiling of €150 million compared to the IRA funding options are also unlikely to be sufficient to avoid the loss of production to the USA in all cases.** For this purpose, a higher approach of, for example, 25% aid intensity and €200 million ceiling would have made more sense. The fact that aid intensities and ceilings slightly higher than the 15% or €150 million set for the standard case are possible in EU-assisted areas is unlikely to have any effect in practice. As analyses of regional industrial clusters show, companies often locate new establishments close to or within existing clusters for various reasons (e.g. close exchange of content with other sectors involved in the value chain, an on-site pool of qualified specialists, minimisation of transport routes in the value chain) and thus rather in regions that are not particularly disadvantaged.
- **The same applies to the 'Matching Aid Clause'. The fact that its application is also limited to designated EU-assisted areas should mean that** the clause is rarely applied in practice and will therefore largely be ineffective. These higher funding opportunities are therefore not available for the upscaling of transformation technologies by the existing EU industrial centres. However, the limitation of the application of the clause to production areas is not truly comprehensible. It is unrelated to the actual intention of the clause to avoid the migration of production to countries outside the EEA and even contradicts it because it reduces the frequency of application and the effect of the clause. By confining it to assisted areas, it is actually more of an instrument for regional economic development and the adaption to living conditions in the EU. However, this is not an appropriate response to the current challenge that EU site competitors with their industrial policy agendas are currently massively promoting the attraction of investment.
- **Also, the time limit of the TCTF until the end of 2025 does not seem to be truly consistent** in the effort to provide an answer to the government investment programmes of other global actors with the TCTF, since the aid period, for example, of the IRA runs until 2030 and the investment ramp-up for the transformation-relevant sectors in the EU will hardly be completed by 2025. Ultimately, a new regular aid framework is needed to meet the global challenges in the medium and long term. An update of the TCF since the coronavirus pandemic is merely a bridge for this.

## Adaptation of existing EU financial instruments

### Commission proposal:

In the context of the chapter on accelerated access to sufficient funding, the Commission provides an overview of the existing EU funding instruments (strengthening the Recovery and Resilience Facility through the REpowerEU initiative, InvestEU Programme, Innovation Funds) and the adjustments needed to make better use of these funding instruments for the objectives of the Green Deal Industrial Plan (e.g. more flexibility for adapting national recovery and resilience plans, simplification of procedures for InvestEU).

**VDA assessment:**

This is principally welcome. In this context, however, it would also be desirable for the Commission to examine a possible need for adjustment in the list of items supported by the Innovation Fund. Since 2020, it has promoted *the commercial demonstration of innovative low-carbon technologies to bring industrial solutions to the market to decarbonise Europe and support its transition to climate neutrality.*<sup>1</sup> However, according to the current state of affairs, this funding is only aimed at

- low-carbon technologies and processes in energy-intensive industries, including products that replace carbon-intensive industries;
- carbon capture and utilisation (CCU);
- construction and operation of carbon capture and storage (CCS);
- innovative renewable energy generation and
- energy storage.

Innovations for the transformation of the automotive industry are not yet included, although the transport sector is a major lever for reducing EU-wide CO<sub>2</sub> emissions. The Commission should improve on this point.

**Improvement of procedures through an IPCEI urgently needed****Commission proposal:**

In order to accelerate the introduction of new IPCEI projects, the Commission plans to streamline and simplify the approval of IPCEI projects. In addition, the creation of a new form of smaller IPCEI projects (with higher notification thresholds and aid intensities under the GBER) is intended to facilitate the participation of SMEs in IPCEI.

**VDA assessment:**

Both are very welcome. The IPCEI (often referred to by the EU as the 'Champions League of funding instruments') is the strategic instrument in the advancement of EU-wide research and development of future technologies up to their first industrial application and in securing global technological leadership in the EU in future technologies - from hydrogen to micro-electronics/semiconductors or battery cell manufacturing. An IPCEI for further technologies is conceivable. However, there is now a consensus that the procedures for applying to participate in an IPCEI are far too laborious, complicated and time-consuming for companies and that the decision-making process for the selection of participants takes too long. The same applies to the release of the initial funding, so that even the corporate investments stimulated by this funding only transpire with great delay. Many companies, especially SMEs, are reluctant to apply to participate in an IPCEI for capacity reasons. This does not really exploit the innovation potential of EU companies.

### Capital Markets Union is desirable – an agreeable design but still a distant reality

The Commission rightly points out that the EU must step up its efforts to create a fully developed Capital Markets Union. At present, capital markets are still highly fragmented along national lines. A true capital markets union would increase the capital market and thus the opportunities for companies to finance transformation-relevant investments. However, the project has been under way for years, and there is no solution in sight to which all Member States can agree. In essence, the challenge lies in finding a regulation that avoids or reduces the redistribution of the state-bank nexus risks that currently differ among the EU countries.

### Pillar 3: Improving employee qualifications

**It also properly addresses qualification assurance – however, solution opportunities in the EU are limited here**

#### **Commission proposal:**

The 'Green Deal Industrial Plan' recognises and addresses qualification assurance as a central pillar for the success of industrial transformation. It lists a number of projects aimed at supporting the development of qualifications within companies by improving the funding opportunities for qualification measures.

#### **VDA assessment:**

For years, companies have cited the shortage of skilled workers as one of their main problems and most important obstacles to investments. In January 2023, a survey of system/parts suppliers in the automotive industry showed that the skills shortage in over 90% of the participating companies is classified as a strong to very strong challenge. This problem is likely to intensify with the green and digital transformation, as it requires completely new qualifications and, due to its high pace, an equally rapid co-development of the social qualification structure. It is therefore welcome that the plan addresses qualification assurance as a central pillar for the success of industrial transformation.

The Industrial Plan lists a number of suitable projects for this purpose. These correctly address both the immigration of (already trained) skilled workers from third countries and the qualification of those already employed here on site. For immigration, the listed projects aim to accelerate the recognition of qualifications and bring employers and employees together (e.g. through the further development of the job market ('talent pool') launched by the EU in October 2022).

In order to support the development of qualifications within the companies, the Industrial Plan provides for an improvement in the funding opportunities for qualification measures.

- Qualification measures that become necessary within the framework of a planned IPCEI should serve as an additional criterion in order to declare this planned project an IPCEI (and thus also have it promoted). On the one hand, this is welcome. On the other hand, however, this is likely to provide very little impetus for qualification, as only a fraction of EU companies is involved in an IPCEI.
- The Commission intends to examine *‘whether the training expenditure within companies is treated as an investment and not as expenditure’*. This could potentially open up additional funding opportunities under the GBER. It is important to not further complicate the complex and fragmented existing funding landscape in the field of qualification, but to expand it in a target group-oriented manner based on existing needs and reduce administrative hurdles.
- For SMEs, the maximum amount of funding per training project is to be increased from €2 million to €3 million. Consideration should be given here to also providing an increase for non-SMEs, particularly since the Commission’s definition of an SME is very restrictive (max. 250 employees and €50 million in sales). Overall, the SME focus is too limited in the promotion of qualifications. The transformation requires particularly high investments in qualification in large multinational companies to be able to skim the potential of a great variety of employees, specifically skilled and unskilled workers, in the future.

What is missing from the Industrial Plan are proposals to increase the EU-wide supply of MINT study programmes. For this purpose, it would be conceivable for the public authorities to provide incentives for the establishment of university places in MINT faculties and for corresponding university cooperation.

Additionally, the focus of the Industrial Plan on the mobilisation of the dormant qualification potential seems too narrow: The plan explicitly acknowledges that *‘the focus of the plan must be on the inclusion of women and young people’*. On the one hand, this is true, since the participation of women in the labour market is still below average across the EU and youth unemployment is high in many EU countries, thus the involvement of these groups could still exploit a high potential. Likewise, however, the EU’s measures should ideally also address other groups of people, such as skilled and unskilled workers, as well as lateral entrants.



## Pillar 4: Open trade and resilient supply chains

### Commitment to free trade is welcome – IRA to be evaluated differently in the VDA's point of view

#### Commission proposal:

In the context of Pillar 4, the Commission highlights the importance of free trade and announces its intention to move forward with the negotiations on the implementation of free trade agreements. However, it also announces that it will *continue to use trade defence instruments to defend the internal market (in particular in the case of transformation-relevant technologies) against unfair trade practices such as dumping and anti-competitive subsidies*.

#### VDA assessment:

In view of increasingly protectionist tendencies worldwide, **it is positive that the Commission's Industrial Plan is fundamentally based on the principle of openness in trade.**

At the same time, however, there is also a shift towards potentially restrictive instruments.

Examples:

- Trade Defence Instruments (TDI) to defend the single market from unfair trade practices
- Regulation on foreign subsidies
- International Procurement Instrument
- The EU framework for Screening of Foreign Direct Investment

In applying these instruments, care must be taken to ensure that they are applied only as a last resort and only in the case of proven distortions of competition.

Open trade not only ensures access to important inputs that are crucial for the green transformation and thus also contributes to the resilience of the value chains. The export opportunities also create economies of scale for EU production. These are especially important for new products at the beginning of their life cycle in order to achieve a cost reduction.

**The commitment to support the WTO and the announcement, negotiation and implementation of free trade agreements is welcome.**

It is gratifying that the Commission more or less stipulates its claim hereto in the further development of the individual agreements - this at least creates a minimum level of commitment - and that it is announcing the exploration of free trade agreements with the Indo-Pacific region. The Commission is thus making up for its omission from its revised industry strategy presented in May 2021, in which it had only mentioned the term 'free trade agreement' in a single place, but without mentioning specifics in this area.

However, it is surprising that the Commission does not mention the United States in its list of desired trade agreements. Similar to the aims of the traffic light factions in Germany, the EU

should take action and the initiative for new negotiations on a common transatlantic economic area for free and fair trade which, among other things, abolishes WTO-compliant industrial tariffs, reduces barriers to market access for future technologies and sets common standards. On a positive note, the Commission is constructive about its approach to the Inflation Reduction Act in the tenor and does not take the point to consider retraction measures: it refers to the existing US-EU task force and is committed to the goal of achieving *‘pragmatic solutions’ to ‘maintain and strengthen the transatlantic value chains and ensure positive cooperation with the common interest of achieving climate neutrality’*.

**From the point of view of the VDA, the IRA must be assessed in a differentiated manner:** on the one hand, it is welcome that the USA is also clearly committed to the transformation. This is also an important market signal for EU companies. It improves the predictability of market development and creates additional incentives for investments in climate-relevant technologies, including at the EU industrial site. However, this requires free access for climate-relevant products to the US market. This is the only way for the EU industry to participate in the market ramp-up of green technologies in the US through its exports. The very strict local content requirements, however, do not grant access at least for vehicles and their precursors. These are highly protectionist and discriminatory and raise doubts about their WTO compliance. It is therefore important that the joint working group on the IRA set up by the EU and the USA achieves a further reduction in discriminatory offences.

Within the framework of the GDIP foreign trade chapter, the Commission also announces the creation of a **club for critical raw materials** with like-minded partners as a supplement to the ‘Critical Raw Materials Act’. This, too, must be assessed in a differentiated manner. Greater international cooperation in the sustainable sourcing, production and processing of critical raw materials is important. However, a pure focus on ‘like-minded’ partners and allies falls short of the mark. In addition, block formation vis-à-vis China or other resource-rich countries must be avoided. Rather, all possible measures and instruments must be taken that can help sustainably meet the large and continuously increasing demand for critical raw materials – especially in the field of electromobility and energy transition – i.e., among other things, the development of bi- or multilateral raw material partnerships, the promotion of mining in the EU, and the further expansion of the circular economy (see also objectives of the CRMA).

An example of already existing closer cooperation in the raw materials sector is the Minerals Security Partnership (MSP, consisting of Australia, Canada, Finland, France, Germany, Japan, South Korea, Sweden, the United Kingdom, the United States and the European Union) which was founded in June 2022. It has set itself the goal of promoting the production, further processing and recycling of critical raw materials with investments in the development of recycling technologies and in the value chains of critical raw materials. In addition, an exchange of information on raw material resources and qualities should take place.

However, the MSP does not yet take advantage of the raw materials policy objectives in the EU as well as in Germany, particularly in connection with EV funding in the USA, although identical objectives are pursued with the requirements. This could be changed if the MSP were taken into account within the framework of the IRA’s ‘critical minerals requirements’ and were seen as a reference for a free trade agreement within the meaning of the IRA’s provisions on the EV incentives. But even beyond that, current considerations in the discussions between the EU COM and the USA to define the EU as a free trade partner of the USA within the meaning of the IRA, for example, in a commodity agreement, are generally welcome politically, although they remain limited in their practical effects due to the narrow legal wording of the IRA.

## Beyond the industrial policy agenda, also think of the long-term regulatory tasks

However, the Commission must not forget its permanent regulatory tasks beyond the industrial policy agenda. First and foremost, these include the deepening and ongoing **finalisation of the EU's internal market and the reduction of bureaucracy.**

The internal market is still not really fully integrated. Obstacles range from problems with the registration of a business activity in another Member State, to the rejection or diversion of cross-border purchase requests, the inadequate standardisation of IT systems within the framework of the Customs Union, to complex procedures due to different tax systems and administrations. And the list goes on. According to a study by the European Parliamentary Research Service (2019), the finalisation of the internal market could unlock an additional potential of 713 billion euros – based on a 10-year period. SMEs in particular could benefit from this. On 16 March, the Commission presented a communication on the 30th anniversary of the internal market. It describes the still existing integration deficit. Many of the measures it lists for its reduction are those that have already been adopted in recent years. However, it also proposes a number of new initiatives. The extent to which these will help to further reduce the deficit remains to be seen.

The bureaucratic burden generated by the EU continues to be enormous. Examples are complex reporting obligations or the extremely complicated and sometimes impractical regulation of human rights due diligence in supply chains. The National Regulatory Council estimates that more than 50% of the annual 'pure bureaucracy costs' determined for the German economy are caused by information obligations of EU and international law. In 2022, the EU formally introduced the 'one-in-one-out rule' for all new initiatives based on an impact assessment. However, it only refers to bureaucratic costs in the narrower sense (reporting obligations) and not to the entire compliance effort (follow-up costs). In addition, a 'one-in-one-out rule' can only ensure that the bureaucratic burden remains constant at best, but does not decrease.

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The German Association of the Automotive Industry (VDA) consolidates more than 650 manufacturers and suppliers under one roof. The members develop and produce cars and trucks, software, trailers, superstructures, buses, parts and accessories as well as new mobility offers.

We represent the interests of the automotive industry and stand for modern, future-oriented multimodal mobility on the way to climate neutrality. The VDA represents the interests of its members in politics, the media, and social groups. We work for electric mobility, climate-neutral drives, the implementation of climate targets, securing raw materials, digitization and networking as well as German engineering.

We are committed to a competitive business and innovation location. Our industry ensures prosperity in Germany: More than 780,000 people are directly employed in the German automotive industry. The VDA is the organizer of the largest international mobility platform IAA MOBILITY and of IAA TRANSPORTATION, the world's most important platform for the future of the commercial vehicle industry.

If you notice any errors, omissions or ambiguities in these recommendations, please contact VDA without delay so that these errors can be rectified.

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