

## Study

# IRA and the net-zero race: How the EU industrial policy should respond

**With the Inflation Reduction Act (IRA), the United States has finally joined the international race to net-zero. A welcome development that poses nonetheless a policy challenge for the European Union's own path to climate neutrality. Stiftung KlimaWirtschaft - German CEO Alliance for Climate and Economy has commissioned the consultancy firm Deloitte to analyse the EU Commission's Green Deal Industrial Plan and the Net-Zero Industry Act and provide considerations what an EU industrial policy response to the net-zero challenge should encompass.**

To reach the ambitious targets for the crucial net-zero technology value chains in the European Union, significant expansion of manufacturing capacities is needed. The study shows that there is a large gap between the European Union's target of 40% production capacity in key technologies to achieve climate neutrality, and current capacity. Businesses have made clear that the ramp-up of renewable energy and hydrogen production is essential for the European single market to remain competitive. In the wake of structurally high energy prices, induced by fossil fuel imports, a much faster and more ambitious deployment of renewable energy is the best way forward to lower energy prices in the medium- and long-term, in combination with smart subsidies such as CfDs and targeted adjustments to the European power market to bring the benefits of low-cost generation capacity to consumers and industrial end users. This will enable and for Europe to maintain/ build its net-zero leadership.

„The IRA is a wake-up call for European net-zero transition policy: We need a simple and targeted incentive to support companies in their transition that complements the Emission Trading System and the fit-for-55 package.” states Sabine Nallinger, Managing Director of Stiftung KlimaWirtschaft. “The EU's Green Deal Industrial Plan, with the Net-Zero Industry Act at its core must now be shaped in a pragmatic, fast and courageous way without further delay. Don't let the perfect be the enemy of the good!”

The analysis of green value chains shows that in most cases, substantially faster growth is required:

- At the present speed of adding generation capacities, REPowerEU targets for solar power capacity in 2030 would be missed by 258 GW, that of wind power capacity by 231 GW.
- The annual manufacturing output for photovoltaics would have to increase sixfold compared to current levels. Annual domestic manufacturing of wind turbines needs to increase by 25% to meet REPowerEU targets in 2030. Especially for photovoltaics, this will be challenging in a market dominated by Chinese manufactures.
- Both electrolyser and battery production require considerable capacity additions most of which have yet to be developed. Related value chains are only in the process of being established.
- Announcements of manufacturing projects for electrolyzer and batteries in the EU would be sufficient to cover good parts of or even exceed expected demand. At the same time, there is a lot of uncertainty and risk that announced projects will be deprioritized or withdrawn due to IRA subsidies and lack of corresponding incentives in the EU.

To that end, a European industrial policy must focus on pragmatism and speeding up planning and approval processes, as well as bringing energy costs down. Funding instruments such as the Important Projects of Common European Interests (IPCEIs) or the

innovation fund should be improved in the wake of the Green Deal Industrial Plan to simplify and increase efficiency in approval and disbursement. Adding OPEX funding to existing CAPEX-focused instruments is also vital for the success of the Net-Zero Industry Act.

However, it remains crucial that the EU does not enter into a subsidy race with other economic blocs but finds its own path for a smart and effective industrial policy. For instance, smart subsidies such as auctions and *Contracts for Difference (CfD)* should be preferred over nominally fixed benefits such as tax credits but will only be successful if designed in a lean way.

### **More information**

This study was commissioned by Stiftung KlimaWirtschaft. The views expressed in the study do not necessarily represent the views of Stiftung KlimaWirtschaft or its supporting companies.

<https://klimawirtschaft.org/publikationen/berichte-und-studien/ira-and-the-net-zero-race-how-the-eu-industrial-policy-should-respond>

### **About Stiftung KlimaWirtschaft (previously Stiftung 2°)**

Stiftung KlimaWirtschaft — German CEO Alliance for Climate and Economy is a nonprofit foundation whose sole mission is to promote climate protection and the sustainable use of natural resources. As a CEO alliance of more than 30 companies from all sectors of business and industry, we work with government, think tanks and civil society to develop constructive solutions for the transition to a climate-neutral economy. As Foundation 2° we have been arguing for ambitious climate targets and ambitious climate policies at the national, European and international level since 2007. We renamed our foundation "Stiftung KlimaWirtschaft" in 2021 to better reflect who we are and how we work. The foundation's supporters are: AIDA Cruises, ALDI SÜD Dienstleistungs-GmbH & Co. oHG, Allianz SE, Aurubis AG, DAIKIN Airconditioning Germany GmbH, Deutsche Bahn AG, DEUTSCHE ROCKWOOL GmbH & Co. KG, Deutsche Telekom AG, Dirk Rossmann GmbH, EnBW Energie Baden-Württemberg AG, Eppendorf SE, Unternehmensgruppe Gegenbauer, GLS Gemeinschaftsbank eG, GOLDBECK GmbH, Heidelberg Materials, Interzero Circular Solutions Germany GmbH, Lanxess AG, Otto Group, OTTO FUCHS KG, Papier- und Kartonfabrik Varel GmbH & Co. KG, Phoenix Contact GmbH & Co. KG, PUMA SE, Salzgitter AG, Schüco International KG, Schwäbisch Hall-Stiftung bauen-wohnen-leben, STRABAG SE, thyssenkrupp Steel Europe AG, Union Asset Management Holding AG, Vonovia SE, VTG GmbH, Wacker Chemie AG.

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