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BUILDING EUROPE'S CLEAN INDUSTRIAL MUSCLE

Key policy priorities to accelerate manufacturing of climate tech now

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Meeting global 2050 climate targets is heavily dependent on an industrial revolution to meet demand for climate technologies like batteries, renewables like wind or solar, and electrolysers which will transform our energy systems and industrial processes.

Binding commitments made by the European Union to slash over half of its emissions by 2030 have succeeded in securing Europe's global leadership in climate action, but equally in securing the Single Market as one of the largest and most attractive open markets for climate technologies.

Building Europe's green industrial muscle

The recent commitment by the EU to supply 40% of its demand for these technologies with products manufactured in Europe is a decisive move to capture the socio-economic benefits of these new markets domestically and a clear signal to climate tech investors.

The investment opportunity is massive, estimated at a minimum €1 trillion over the next 6 years to reach 2030 objectives. EIT InnoEnergy's portfolio of 200 start-ups and scale-ups alone will require €160 billion of new capital over the same period.

The market for climate tech will only continue to grow as more industries decarbonise. Decarbonisation of just one energy-intensive sector in Europe like steel using hydrogen-based processes will drive an additional demand of 800TWh in Europe by 2030 (European Green Hydrogen Acceleration Centre, 2024), which is equal to the current electricity demand of France and Italy combined.

As a result, climate tech is fast becoming one of the fundamental drivers for economic growth for Europe over the next decades. To put this into perspective, the European climate tech market is today already estimated to be worth €120 billion per year (IEA, 2024). The battery and electric vehicle sector alone, has a projected annual growth of €500 billion and an additional 1.5 million jobs by 2030 (European Battery Alliance, 2024).

But the window to capture this opportunity is short. Urgent and immediate action at EU and national level is needed as global – and unfair – competition increases and critical dependencies on third countries continue. The EU's ability to scale green industrial capacity, enlarge and secure resilient, sustainable supply chains and access the necessary finance will be key to its success. The EU should prioritise:

- Speed in implementation and execution of agreed policy measures (Green Deal Industrial Plan), with resilience, sustainability, circularity and traceability of products at the core of its industrial strategy.
- Reallocation of existing budgets to climate technology manufacturing and new financial instruments to mobilize private capital, instead of search for more public finance.

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Deliver the best business case for sustainable, EU-made climate tech

The EU has a target to supply 40% of annual European demand for climate tech with domestic manufacturing capacity by 2030, backed by a new legislative framework enhancing the EU business case.

In a context of crunched capital availability, speed and ambition in the delivery of the plan is needed to confirm the appetite of climate tech investors to choose Europe.

- **Enhance Europe's competitive edge by putting resilience, sustainability, traceability, and circularity at the core of the Internal Market and of the EU's industrial strategy.** Implementing high sustainability standards for climate tech products will help rule out the most harmful goods and lower the carbon and material footprint of climate tech value chains globally. It will also allow the EU and Member States to implement relevant schemes to reward best performers but also to pull the demand for sustainable European products through measures incentivising the final consumer. Such standards and demand-pull strategies are decisive market signals to trigger investment in domestic manufacturing capacities.

Priority measures

① Implement high sustainability standards for each net-zero technology

② Establish a digital product passport for each net-zero technology

③ Align European R&I objectives and programs with industrial objective

- **De-risk strategic climate tech value chains and enforce fair competition.** A value chain can only be as strong as the weakest of its links. Established industrial alliances such as the European Battery Alliance and the European Solar PV Industry Alliance, have devised action plans to foster competitiveness in strategic technology and industrial areas for Europe. A coordinated approach to EU and national policy levers will give EU industrial players an edge and comfort investors that adequate support will be provided and fair competition be enforced.

Priority measures

① Use available policy and public investment levers to secure offtake of European-made products

② Make use of the existing trade defence toolbox and Foreign Subsidies Regulation

③ Develop a 2040 climate industrial plan alongside the 2040 climate targets

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Boost access to public and private finance for climate tech

At least €1 trillion of investment is needed to meet the objectives of the entire European Green Deal. When it comes to manufacturing of climate tech alone, the European Commission estimates that €700 billion will be required by 2030.

This necessitates a step change in how climate tech investments are financed, reprioritising the use of available public budgets to scale up manufacturing efforts. Public finance alone cannot carry the full price tag of the transition; therefore, a rethink on how the public sector can maximize private finance will be required. It is only with private capital doing the heavy lifting in large-scale investment that such a challenge can be met.

- **Mainstream climate tech in the current and future EU budget.** To have an impact on green manufacturing targets for 2030 and support the industrial pillar of the Green Deal, EU budget measures must be taken now within the current budget. Independently from the Recovery and Resilience funds (RRF), budget guarantees and ETS revenues, we estimate that €30 billion per year can be made available from EU programs within the current budget. These funds should be readily earmarked for the manufacturing of climate technologies in the mainstream.

Priority measures

① Set aside €30 billion annually for climate tech industries in the 2025-2027 EU budget

② Earmark 50% of national EU ETS revenues for strategic climate tech industries

③ Earmark 10% of the European Social Fund Plus (ESF+) to train the workforce in strategic value chains

④ Prolong adjusted State Aid rules to continue scaling green industrial manufacturing

- **Address the gaps in the EU's financial toolbox with new instruments.** Only new innovative EU public financial instruments which better leverage private financing can adequately meet the financing needs of climate technologies. New instruments can be piloted within the current multi-annual EU budget.

Priority measures

① A €500 billion Climate Tech Sovereignty Fund, anchored with the European Investment Fund (€10bn) which pools capital from private investors (€490M) to meet EU Green Deal objectives.

② A €100M *Kickstarter* scheme for greenfield industrial start-ups at pre-seed stage which catalyzes private capital, helping to scale frontrunners faster.

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Accelerate the transformation of energy-intensive industries

Europe's industry is vital to ensure economic growth, job creation, and technological innovation, ensuring stability and global competitiveness.

Additionally, it plays a crucial role in achieving sustainability goals, maintaining strategic autonomy, and fostering regional development. Fortunately, Europe is home to several industrial frontrunners that decarbonise energy intensive sectors like steel or fertilisers. They are instrumental in activating industry-wide change for incumbents considering green alternatives and driving sustainable business-model transformation and bolstering Europe's (re)industrialisation for key materials and components.

- **Give industrial frontrunners 'a fast pass' for priority access to land and grids.** To drive industrial transformation at speed, frontrunners require prioritised support to overcome the multiple challenges faced in starting new industrial plants or decarbonising existing sites. Through a fast pass, Member States can prioritise and shortlist high-impact projects for access to suitable land, a significant portion of which will come from repurposing unused industrial sites (brownfield). Overcoming regulatory barriers to redevelopment of brownfield sites, including streamlined permitting processes, will remove huge hurdles for these projects.
- **Incentivise the launch of 30 first-of-a-kind green industrial plants across the EU by 2030.** Making Europe the champion of decarbonised players in energy intensive industries will provide a competitive edge, mitigating climate change, fostering technological innovation and sovereignty, enhancing economic competitiveness and energy security, as well as creating sustainable jobs. 30 first-of-a-kind green industrial plants will function as first-of-a-kind industrial sites, allowing for the implementation and demonstration of innovative decarbonisation technologies, including electrification and decarbonisation through hydrogen at an industrial scale. This target should be set as part of a new European Industrial Deal. For these 30 industrial sites Member States need to guarantee: access to land, access to grid and access to affordable and low-carbon power.

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