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TOWARDS A EUROPEAN GREEN INDUSTRIAL DEAL

Foto cover: ANP, Chris Emil Janssen

Executive Summary

Europe has a strong and innovative industrial base, providing work to millions of people. Europe's trademark is high quality, reliable and durable products, produced respecting human and social rights. We want to safeguard this important part of the European economy by making it fit for a climate neutral future, based on circular use of materials, and powered by renewable energy sources.

Taking the lead in this transformation provides an unprecedented opportunity to strengthen our resilience, prevent de-industrialisation, create new jobs, and help us meet our climate and environmental targets.

This will not be easy. We will have to transform traditional energy and carbon intensive sectors like cement, steel and chemicals; scale-up new green manufacturing industries such as solar, wind, heat pumps and electrolyzers; and develop new circular business models.

With the European Green Deal, we have built a strong foundation for this transition. But we need to do more to actually make it happen. European industry needs certainty, stability and predictability to make the right investments and the support to deal with geopolitical risks and environmental costs.
This will not require less, but more European coordination and action. We will need to navigate the rough geopolitical seas together, as Europe, as governments, industry, workers and civil society. That is why we want to work on a proactive, inclusive strategic and green industrial policy, supporting industry in this transition. We need a European Green Industrial Deal.
Our vision on a Green Industrial Deal is based on five pillars:

1. Strengthen European coordination

Current European Industrial policy is fragmented and incoherent, harming both the speed and efficiency of the transition. Europe therefore needs a mission-oriented Green Industrial Strategy, supported by strengthened European coordination of strategic industrial sectors, improved transnational energy and industry planning, sectoral transition pathways and Green Tech Deployment Plans.

2. Support green leadership

We want green products and materials to become the new norm. Lead markets should guarantee stable demand through green procurement and European product standards. Taxation and emission pricing should provide stronger incentives, guiding investment in the right direction.

3. Unleash green investments

We need to step up both our public and private investment game. The transition needs temporary, but easily accessible public support via a Green

Transition Fund, enabled by a joint borrowing scheme, ensuring a level playing field in all Member States. Public funding should first and foremost boost electrification and circularity. Funding should be conditional on clear decarbonisation plans. In parallel we want to fully phase out fossil fuel subsidies and reinvest these into industrial transformation.

4. Boost the circular economy

We aim to put in place ambitious ecodesign standards and requirements to boost circular demand, such as design for disassembly, recycling and recycled content, and support collaboration across the value chain to reuse materials. This improves European strategic autonomy and will create more industrial jobs.

5. Ensure a just transition

A carefully crafted transition will create hundreds of thousands of new quality jobs in Europe. We turn SURE into a European employment transition fund to support the income of workers in the context of the green transition, and ensure robust safety nets including adequate minimum income support. We also guarantee democratic participation of workers via just transition plans, strengthen the Just Transition Fund and formulate strong social conditionalities for public funding and procurement.

Introduction

Europe has a strong and innovative industrial base, providing work to millions of people, and manufacturing products and materials involved in virtually any economic activity. **We believe European industries have an essential role to play in our climate neutral economy.** The transformation of our industrial base provides an unprecedented opportunity to strengthen European autonomy and resilience, prevent de-industrialisation, create new jobs and help us meet our climate and environmental targets. This is however not a given. China is heavily subsidizing its clean tech sector and is currently leading the global race for many green technologies, while the US is also deploying massive investments and subsidies to rebuild their industries and their jobs. **Slowly, Europe is starting to realize that it has to accelerate or lose its position as green frontrunner.**

The challenge is massive. **Europe's electricity production needs to multiply and cross-border grid connections should double before 2030. Industrial investments will need to be higher by a factor of six compared to the previous decade; which provides us with a narrow window of opportunity.** We will have to modernize energy and carbon intensive sectors like cement, steel and chemicals, scale-up new green manufacturing industries like solar, wind, heat pumps and electrolyzers and coordinate the transition of industrial activities which have little to no future in a fossil free society, while simultaneously ensuring proper protection of workers.

Until now, many in Europe entrusted the market to do the job. Unfortunately, this approach is not working. While carbon markets, if properly implemented, can be an effective instrument to reduce emissions, they cannot solve the challenges of this transition on their own, nor help fully reap its benefits. For instance, industry is facing limited demand for green alternatives, insufficient infrastructure and high electricity prices. These challenges can and will not be solved by the market alone. At the same time, national governments that try to mitigate these issues get caught in a subsidy race that is pitting countries against each other, driving a wedge in the internal market and keeping inefficiencies in the system.

Both the European Commission and industry have realized that we need to take action. In the current political environment, there is however a huge risk of taking the wrong turn: easing environmental targets, or even "pausing" the Green Deal and giving more room for national state aid. Let us be crystal clear: this is not industrial policy, but a free pass for industrial

laggards. It would be detrimental for investment certainty, stability and the predictability industry needs. It would **weaken European competitiveness, not solve our challenges nor put Europe in the global front seat of this transition.**

Europe therefore needs a proactive, inclusive and strategic green industrial policy to support industry in this transition and help to reap the full benefits; strengthening our prosperity and resilience. It's high time for a real European Green Industrial Deal. In this paper, we outline our vision for a truly European Green Industrial Policy, supported by **five pillars for a strong and rapid execution:** stronger European coordination, the support of green leadership, a boost for the circular economy, unleashing European investments and ensuring a just transition.

1: A vision on Green Industrial Policy

Foto: ANP, Chris Emil Janssen

We believe that a strong European industry fulfills a crucial role in our future economy and is a crucial precondition for a resilient and climate neutral Europe. We know that our industry will have to fundamentally change towards 2040; transforming energy intensive industries, rapidly scaling-up new clean technologies and phasing-out fossil fuels. And we will only succeed in doing so if we put fairness at the heart of the transition. That is why we propose an inspiring vision on the European industry of the future that provides certainty for businesses and workers, supports new sustainable business models, coordinates the right investments, manages expectations and seizes opportunities. This paragraph aims to sketch the beginning of such a vision by outlining three points of departure.

Climate, circularity and zero pollution strengthen competitiveness

European climate policy has set a clear target for greening European industry, **providing little more than fifteen years to become climate neutral. While this is challenging, it's also a major opportunity to strengthen European competitiveness.** A phase-out of fossil fuels requires massive upfront investments, but will lead to a more robust energy system in the long run, saving many billions on expensive energy imports. It will also strengthen our strategic autonomy, lowering dependencies on autocratic countries like Russia. In this context, the absolute priority is to ensure the massive deployment of renewable electricity and its related infrastructure to be able to electrify most industrial processes.

To do this, the cleanest solution should also be the cheapest. And to ensure fairness between businesses inside and outside the EU, effectively factoring in the environmental costs through a stable carbon price for local and imported products will be key. The European Emissions Trading System has recently been revised to achieve these objectives, by ensuring that in several sectors free allowances will be gradually phased out, while some types of imported goods will be subject to the carbon border adjustment mechanism and will no longer freeride compared to European manufacturers. But important work still needs to be done: for example, adding a price floor would create more certainty for new sustainable investments, and the adjustment mechanism should apply to additional sectors to improve fair competition.

Greening our industry is however more than climate neutrality. The European Green Deal is also a clear agenda working towards a zero pollution environment and circular economy. Many politicians argue for a step-by-step approach, taking these transitions one by one; after the climate comes the environment. **While it may sound attractive to reduce complexity, the wisest option is to have these transitions work together.** Industrial policy should not be at the expense of

other transitions, but should be a lever to reinforce them and accelerate them. Not only do we not have the luxury to wait, it's also much more efficient and cheaper to redesign processes just once.

Circularity and sufficiency must therefore be important puzzle pieces in the industrial transition. An example is the chemical industry, where carbon will still be needed in the future production process. Fossil-free alternatives must therefore be sought, such as (bio)waste, which is scarce. By recycling these materials and using them as a carbon source, we have less waste and less CO2 emissions. Using waste as a raw material and improving reuse and recycling also reduces dependence on raw materials from outside Europe making us more resilient and less vulnerable to external supply shocks. Moreover, it stimulates industrial development in Europe, which in turn creates new jobs. **We therefore need an industrial policy that not only focuses on CO2 emissions, but a policy that moves industry towards healthier, circular and environmentally friendly alternatives.**

Greening our industry: a differentiated approach

We are on the eve of a fundamental industrial transformation and it is therefore an illusion, and even naive, to think that the industry of today will be exactly the same as in 2040. **The question is to what extent we watch change happen, or whether we want to shape it.**

We choose the latter: an offensive and proactive policy approach. Sticking to the passive approach that member state governments have adopted over the last few decades, means idly standing by while a big part of our industry slowly whittles away, not surviving the transition. Either because of international competition or because the preconditions, such as sufficient infrastructure, demand for clean products and affordable green energy, are not yet available in sufficient quantities. On a national level, some governments are now taking a proactive approach, pouring billions into industrial funding. **In practice, however, this often means subsidizing the largest polluters in a competition against other Member States, without making a strategic choice. This is neither efficient nor sustainable. A functioning carbon market and a strong regulatory framework on the other hand can be a lever for innovation and can foster the EU's leadership on the global stage.**

Green industrial policy therefore has to be a differentiated approach of scaling-up, transforming and scaling-down industrial capacity, depending on the sector. We must carefully look at the potential of these companies in a climate-neutral and circular economy, taking into account factors like future demand, production costs and location factors. But also the societal and strategic value of a sector, in a world with limited public resources. And based on that, make policies to guide the industry. This means

supporting future oriented sectors of European importance through effective CO2-pricing, regulation, infrastructure deployment and investments, but also deciding that some sectors should not be subsidized in the context of the new economic reality, while ensuring proper protection and reskilling for affected workers. Concrete examples clarify this approach:

- **Scale-up:** even though we are only at the beginning of the transition, we already know what strategic sectors and technologies will be vital to the future European economy, be it zero-emission machinery and transport, energy technologies like electrolyzers, wind turbines, heat-pumps and solar or new technologies like low-carbon clinker, mechanical and certain types of chemical recycling, or alternative proteins. **Europe is barely actively shaping these sectors, for which funding and coordination is still lacking. We need to step up our game or accept losing the global race.**

- **Transformation:** energy-intensive industries provide the materials for most other industrial production. Green chemical and steel production are a vital part of our future economy, but at the same time they are heavily dependent on abundant and affordable renewable energy, while being exposed to small margins. In order to allow these sectors to phase-out fossil energy and processes and make a shift from virgin to circular production, the EU must actively engage in the green transformation of these sectors. **We will not meet our climate targets nor work on European strategic autonomy if we do not temporarily support these sectors during their green transition.**

- **Scale-down:** while most industrial sectors will need to scale-up or transform, there are some sectors which will play a smaller role in our future economy. Next to the obvious sectors which need a clear phase-out date, like coal, oil and gas, there are also sectors, like the fertilizer and refinery sector, for which demand will change in a sustainable economy. The agricultural system will lower the dependency on chemical inputs and because of electrification, we will need less liquid fuels. These changes might be further enhanced by the shifting location factors of clean production: the price of the massive amount of renewable electricity needed for these products, might be much lower in sunnier parts of the world, that it outweighs the transport costs of final products. **These sectors will not disappear, but a European industrial strategy has to take into account these developments and the associated strategic trade-offs, and then act accordingly. Not all industrial sectors can be subsidized against a new economic reality.**

The future of our industry is European

Over the past decades, price mattered much more than the location of production. Production often moved to the cheapest location, disregarding social, ecological or strategic considerations. The last few years, this paradigm started to shift. As it's becoming increasingly clear that the energy transition is 'made in China', with Europe losing the game in more and more important sectors like solar panels, electric vehicles and chemicals. Recently, the US, realizing that the race is on, launched the biggest climate investment programme ever in order to catch up. The American Inflation Reduction Act is increasingly attracting investments from Europe to the US. While this is great for climate action, **Europe is becoming more vulnerable to economic and geopolitical shocks. Instead of only talking about strategic autonomy, we need actual investments in strategic sectors of our economy.**

This is something that Member States cannot do alone, so on the EU level, first steps have already been taken to reduce these dependencies with the 'Net Zero Industry Act' and the 'Critical Raw Materials Act'. However, these regulations are far from what we need, as they focus on permitting and **lack any prioritization, instead of facing the real challenges for industry**: a lack of infrastructure, renewables, investments, demand and coordination.

In addition, Member States and allowed via targeted state aid relaxation for some climate-neutrality related activities (Temporary Crisis and Transition Framework - TCTF). Member States are allowed to defend their national industry rather than act in the European interest, which creates a tangible risk of fragmenting the internal market and widening the gap between territories. The demise of a proper Sovereignty Fund, which was eventually replaced by the STEP Regulation, proves the lack of willingness to articulate a European answer. **If we want to be able to make a stand against US investments or Chinese production, our industrial policy must take on a serious European dimension.**

In addition to geopolitical interests, the consequences of climate change also force us to coordinate industrial policy on the EU level. For example, many companies are located along rivers, because rivers are used for cooling water and for the supply of raw materials and products. Warming rivers have less cooling capacity and drying rivers limit transport options. If it becomes more difficult to supply raw materials via rivers, it may become harder to sustain the production processes where they are located now. **It's crucial to factor in these changing location factors and circumstances into our industrial development. Doing this on a European level provides more predictability and certainty for industry.**

2: The implementation: Five pillars of a Green Industrial Deal

Foto: ANP, Mischa Keijser

The European industry of 2040, is shaped by the decisions we make today. Next to a clear vision, we therefore need strong and rapid implementation. It was long thought that the market would do the job, it's now more than clear that we need strong cooperation to solve the fundamental challenges of the transition. Governments push acceleration with investments, standardization and coordination in the value chain. This will require a fundamentally different way of thinking: from managing the common market, to shaping it. The implementation of our vision is therefore based on five pillars: 1) strengthen European coordination, 2) support green leadership, 3) boost the circular economy, 4) unleash green investments and 5) ensure a just transition.

Pillar 1: Strengthen European coordination

While Europe pretends to engage in industrial policy, it does not yet have the full powers to actually do so, let alone to shape a coherent industrial strategy. Investment decisions in certain sectors or subsidy arrangements, which may need EU approval, often lack any strategic coordination. **This leads to a situation in which future production capacity might not be located in the optimal strategic or economic location, but in the Member States having the deepest pockets.**

There are already examples of this that have made the news in Member States, like Nyrstar - which had to close down production in the Netherlands due to tax benefits ending and high energy prices, while other Member States maintained the same benefits - and ArcelorMittal, who put on hold an investments decision in Belgium, due to more beneficial arrangements in France. The same is of course true for energy policy, where decisions on energy generation capacity are contrary to that of neighbouring Member States.

In addition, the development of infrastructure, such as new electricity connections and hydrogen pipelines, is a national competence. In fact, Member States more than once blocked the construction of crucial transeuropean infrastructure.

We therefore need a European Industrial Strategy and coordination on investments, infrastructure development and national industrial policy, including strategic choices. **The next Commission has to take fundamental steps toward a European approach, albeit without fully federalizing industrial policy.** We need strong governance and sufficient staff for the coordination of industrial policy. Along with new planning processes and, if all else fails, overriding powers.

A European 'Engine Room': at the moment, the EU lacks coordination of industrial policy, both at the European Commission (with differences between DGs) and on conflicting policies in Member States. The Commission also does not have the powers and information it needs to develop foresights on industrial and energy

planning and articulate visions and plans for critical sectors, materials and infrastructure. We need what we call a European 'Engine Room': a high-level team in the Commission organizing the coordination of industrial policy, building on and strengthening existing executive power. This team should be led by an Executive vice-president on the Green Industrial Deal.

Mission-oriented strategic choices: Europe lacks a mission-oriented industrial strategy which defines our strategic and environmental goals and translates those to sectoral transition pathways and investment- and policy needs. Along with a clear time-horizon and key performance indicators (KPIs) to track progress on these issues. We should not fall into the classic European trap of trying to cover every sector, as with the Net Zero Industry Act (NZIA), but define strategic sectors which need European coordination first, including on national industrial policies.

Green Tech Deployment Plans: while transition pathways may be a good governance framework for transforming energy intensive industries, sectors like the heat pump or wind industry deal with a different challenge: scaling-up high tech production at a low cost. For those sectors, we should create clear plans with targets, EU coordination, funding and ways of creating stable demand, for instance by joint purchasing and European standards.

Transnational Industry Planning (TEN-I): the transition has a strong spatial dimension with infrastructure crossing national borders and decisions in industrial capacity affecting industrial sectors, investment decisions and energy demand in other Member States. To improve sectoral and cross-border or regional cooperation, we should, next to a comprehensive strategy, put in place a governance framework, building on the experience with European infrastructure planning under TEN-E. Governments and stakeholders should work on shared regional and sectoral, industrial plans, which then form the basis of decisions on European industrial funding programmes and national subsidies.

Binding infrastructure mediation: to overcome a crucial problem on infrastructure development, when Member States disagree among themselves on these projects, a European authority should be given the mandate to mediate and, in exceptional cases, take binding decisions, just as is currently the case with the European financial supervisors (so called binding mediation).

Pillar 2: Support green leadership

Our goal is to make green products and materials the new norm. This requires much more active support of the transformation of **traditional energy and carbon intensive sectors** like cement, steel and chemicals and when **scaling-up new green manufacturing industries** like solar, wind, heat pumps and electrolyzers.

Carbon pricing, even when effectively implemented, cannot address this challenge on its own. Even with rising ETS prices, European industry is far from investing enough. Using fossil gas is often still cheaper than electrifying processes and it is unclear for companies whether they can pass on the additional cost of investments, in a competitive global market.

Part of the answer lies in the recent improvements to the ETS and the new carbon border tax (CBAM), raising the effectiveness of ETS and leveling part of the international playing field. But a price gap with fossil technologies and the fundamental uncertainties of the market remain. We cannot waste more time and instead need to step in to further strengthen the right price signals, create a strong demand for green products and steer investments towards the most sustainable solution. **The next Commission needs to use every tool at its disposal to create lead markets for both clean products and materials.**

Green content standards: if we want to support frontrunners, we need to provide certainty that green products, even when more expensive, find sufficient demand. We need to urgently work on more demand side policies. Steel is a good example of this. Decarbonising a steel plant requires billions of investments, but a new car is only 100 to 200 euros more expensive if it is made with green steel. By requiring car manufacturers to use green steel, the additional costs can be easily passed down the supply chain. We need to do this for all major carbon intensive products.

Green public and private procurement: public procurement makes up 15% of the EU's GDP, making this a key lever for the benefit of the transition and sustainable producers. In fact, using green criteria will benefit frontrunners in Europe compared to competitors in third countries who manufacture products of lower quality and sustainability. This will put an end to polluting manufacturers winning tenders based on price alone, and who do not factor in their social and environmental externalities. Next to public authorities, in incertain capital intensive sectors, private companies should support the demand for green products and materials, for instance by setting clean vehicle targets for private fleet operators.

Strengthen price signals: CBAM allows for a phase-out of free allowances, the scope should therefore be enlarged to all relevant ETS sectors and downstream products. A second way to improve the price signal is to build in a floor price, which raises over time. This will avoid strongly fluctuating prices (ETS prices roughly halved between fall 2023 and spring 2024) and provide more certainty for green investments.

Funding the most sustainable solution: due to international competition, not everything can be covered by legislation, which is why financial support for certain industries is also needed. We should not, however, blindly support all industrial

decarbonisation options. Priority should be given to sectors with strategic importance and solutions where the cost of decarbonisation is far higher than the CO2-price. Investments should be targeted towards solutions with the most societal benefit, for example electrification instead of CO2-capture and storage. Since this solution does not only reduce CO2 emissions, but also air pollution and fossil fuel use. CCS should only be used for installations that are impossible to abate. Public funding should be conditional on decarbonisation plans and subject to social conditions ensuring decent wages and working conditions and proper up- and reskilling programmes.

Easy access: Projects with proven environmental benefits should be granted easy and fast access to funding at EU and national level. The IPCIE process for example should be simplified and accelerated. Bureaucracy can also be reduced through the digitalisation of administrations. We want data exchanges to be automated and companies to be able to file applications for funding or permits fast and easily via a digital one-stop shop.

Greening energy taxes: a reform of the Energy Taxation Directive is required to favour electrification, by taxing electricity less than fossil fuels. But this essential file of the Green Deal has seen little progress due to Member States having veto power in the Council. If the Council does not find a workable solution to this problem, a coalition of willing governments should find an agreement. Possibility via a European Directive on taxation with opt-in possibilities.

Pillar 3: Unleash green investments

Europe has a green investment problem. While China and the US have decided to invest hundreds of billions in greening production processes and in green tech deployment, this discussion in Europe has come to a complete standstill, illustrated by the demise of a Sovereignty fund. For the time being, the billions spent during the Corona crisis are one-off and the slow negotiations over the EU budget always lead to budget cuts in innovation investments. On top of that, investments are also fragmented and not easily accessible for many companies. At the same time, Member States themselves are increasingly involved in an inefficient subsidy race, facilitated by a targeted state aid relaxation. With three quarters of state aid at national level granted by France and Germany, decarbonisation efforts in these countries risk driving a wedge through the single market benefiting some but not all.

If we want to accelerate the transition, strengthen European cohesion and ensure that industry in all Member States invests more, Europe will have to urgently step up the investment game. We need investments in the scale-up and deployment of green technologies and enabling conditions for industrial transformation, most notably electrification. We need more funding at European level to create a level playing field among Member States, and to

match investments from the US and remove market barriers, including fossil fuel subsidies as soon as possible.

- **Green Transition Fund:** the new Commission has to initiate a new joint borrowing scheme in order to set up a new transition fund of at least 1% of European GDP. This is necessary to close the investment gap and make major joint investments in crucial sectors that we want to maintain and stimulate in Europe. As opposed to the Recovery and Resilience Facility launched in response to the Corona pandemic, we need to work on European instruments that target companies the same way in every member state. They should be simple, have strong conditionalities and ensure private co-financing. These funds could then be used for two sided European Contracts for Difference, to stimulate electrification or investments in renewables, either by temporarily supporting operational costs or capital investments.

- **Close the investment gap for green technologies:** we need to steer more investments towards the scale-up of new technologies and first-of-a-kind installations. Governments have so far insufficiently invested in bridging the so-called valley of death, preferring to hand out small subsidies to start-ups or to invest in mature technologies as these are deemed safer. However, if we want to compete with the US and China, the EU needs to be ready to take on more risk, and invest in green European scale-ups. One important step would be to massively increase the size of the innovation fund, which is only tiny when compared to the amount of free allowances given to industry. Another is to support flexible and multi-purpose pilot facilities that allow process development, scale-up and custom manufacturing, which helps smaller companies that lack the right infrastructure to speed up the technological readiness level of their innovations.

- **Phase-out fossil fuel subsidies:** green investments must compete with fossil investments, including fossil fuel subsidies. Our government budgets are currently heating and cooling the room at the same time. In addition to direct subsidies, there is a massive amount of indirect subsidies providing competitive disadvantages to clean-tech companies. Important examples are low fossil fuel taxes and free allowances, the latter amounting to more than 200 billion since 2008. Rising to an estimated 46 billion per year on average between 2021 and 2025. The EU needs to urgently coordinate the phase-out of these subsidies, so that it does not harm the level playing field. This money can then be reinvested back into the industrial

transformation.

- **Brown taxonomy:** a large part of the investments needed have to come from private sources. From industry to pension funds and venture capitalists: all must receive the signal that green investing is the future and fossil investments are on the way out. We must make a greater distinction between green and polluting investments by having financial institutions include climate and other sustainability risks in their risk assessments and associated capital requirements. Moreover, we must shift the burden of rules from green companies (who have to prove they are green) to fossil investments, which are now often not covered by reporting requirements.

- **Green banking:** the European Central Bank should apply lower interest rates for green investments, and offer favorable refinancing terms to banks that engage in green lending, because sustainability contributes to price stability. It should also set up a green bonds financing facility.The EIB needs to step up its game as a climate bank, providing low interest rates and guarantees for green investments.

Pillar 4: Boost the circular economy

The circular economy is a crucial part of the industrial transformation. By using smart strategies to lower the demand for virgin materials and products, like steel, cement and plastic, we can solve up to half of the industry's emission challenge, reduce various other environmental impacts and vastly improve our strategic autonomy. Moreover, reuse and recycling processes are far less energy and emission-intensive than production based on new resources.

Reuse of materials in waste can greatly contribute to the demand for raw materials by European industry. Strong circular policies will turn waste into a competitive advantage and create more industrial jobs. There is however still a world to win. The so-called 'circular material use rate' in the EU has not improved in years, currently stabilizing around 11.5%. Moreover, as of today, recycling often implies downcycling since recycled materials often do not have the same product characteristics as primary materials. In many cases recovery of high quality materials from waste is not yet commercially and technically viable. **We need to turn this around and urgently improve the quantity and quality of reuse, remanufacturing, refurbishing and recycling in the EU. We also need to take into account sufficiency strategies**, for example reducing the average weight of vehicles or the adoption of a modal shift, as the energy or materials we do not consume, do not have to be produced.

Circular governance framework: the EU has developed a strong climate governance, based on the Climate Law and other regulations and directives.

We need to do the same for the circularity of our economy. We need targets, common benchmarks and national or sectoral plans, building on the Critical Raw Materials Act. This provides long-term clarity for industry and other stakeholders. We should take care that such a governance framework is well streamlined with other existing legislation. This framework should form the basis for concrete eco design standards and performance requirements of products.

Ecodesign standards and performance requirements: we need circular products and production to become the norm in the EU by setting design standards and requirements for all major material and product streams containing carbon intensive or strategic materials. The upcoming delegated acts of the ecodesign regulation will play a key role, with the battery regulation having paved the way for such requirements, i.e. by making recycled content mandatory in new batteries, creating demand for recycled products and boosting investments. These standards need to be regularly revised and adapted on the basis of the newest developments regarding material efficiency and the substitution of materials.

Redirect our waste streams: right now, much of our waste, whether it is solid or bio waste, is incinerated or used as a source of energy. While this is partly incentivised by European legislation, this is neither sustainable nor best economic use of these materials. We are in favor of revising those incentives, as laid down in the Renewable Energy Directive, to clearly direct waste streams to use cases with the highest value in terms of economic and environmental outcome.

Pillar 5: Ensure a just transition

The transformation of our industry offers opportunities for hundreds of thousands of employees, as both industrial transformation and the scale-up of clean tech sectors will provide many new green jobs. However, careful planning and anticipation with the close participation of workers and trade unions is needed as these will not automatically be high quality jobs, and new skills will be required, while not all regions in Europe are evenly equipped. At the same time, strong safety nets should make sure that the cost of the transformation is not borne by the workforce. The transition cannot be just if workers are not at the center of it. **Active public policy is therefore needed to put the right incentives in place for the industry to be ready, to minimize the social costs of the industrial transformation, and to make sure that new green jobs are quality jobs.**

- **Social conditionality:** if we support the industry with billions of public money and spend funds to procure public projects, we need to make sure that there are not only environmental, but also social conditions attached. We should make sure that these industries provide decent wages and invest in the training of their workers, like

the US is doing under the IRA. It is essential that firms receiving public money and contracts respect collective bargaining agreements and workers' rights to establish them.

- **Just Transition Plans**: industry should draw up forward-looking just transition plans, together with workers and trade Unions, to anticipate its transformation and minimize job losses. Such plans need to include training programs so that every worker exercises their individual right to professional education and lifelong learning. These plans aim to protect at the same time the interests of companies as regards competitiveness, economic sustainability, and compliance with the green deal objectives, and those of their workers;

- **A European employment transition fund:** we transform the temporary SURE instrument (Support to mitigate Unemployment Risks in an Emergency), created in the wake of the covid pandemic, into a fund that stabilizes the economy and supports the green transition. With this fund, European money will support short-time work schemes and finance the income of workers temporarily laid off in the context of the green transition.

Robust security schemes and safety nets, including adequate minimum income support, will have to complement job creation measures and ensure that nobody is left behind.

- **Increase the Just Transition Fund:** the green transition does not only have winners, there are regions that live off fossil industries, who will disappear in the coming decades. Those regions need active support to transition away from the fossil sectors, and to co-invest with the market in new good jobs. The Just Transition Fund should be increased and should complement existing financial instruments effectively.

- **Windfall profit tax:** while many companies and society as a whole bears the cost of the transition and the surging energy prices, there are also companies making record profits in these tumultuous times. The Commission has shown it can set up a framework to tax some of those windfall profits on energy markets, but has only done so temporarily. This would be a significant and fair source of revenues which can be invested back into the transition, including in workers and local communities. This should be part of a broader rebalancing of the tax system to favor employment, while taxing other sources of income, including those deriving from highly polluting activities.

3: What is next?

Foto: ANP, Sem van der Wal

The identification of this challenge gives the responsibility to work on a solution. Formulating this vision is therefore only a first step. The vision and proposals provide the much needed groundwork for our actions in the coming months and even years.

This paper provides the basis for the many dialogues and discussions to come and should help with a formulation of a Green Industrial Deal, supported by all stakeholders, and strengthen the cooperation needed to actually realize this. In the run-up to the European elections, but also in the period afterwards.

The formulation and realization of a Green Industrial Deal will take time and will, in our view, be one of the most important tasks for the new European Commission and the European Parliament. It has the potential to unite Europe in an agenda for the next five years. An agenda that lays the foundation for a Union that can deal with geopolitical shocks, looks the climate crisis in the eyes and seizes the social and economic opportunities offered by the green industry with both hands.

Our aim is clear. Let's get to work.

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