Clean Industrial Deal

POSITION PAPER
February 2025

The French Association of Large Companies (AFEP) considers that the **main objectives of the Clean Industrial Deal should be the following:**

- **Boost the competitiveness of EU industries and energy producers in the EU, specifically focusing on energy prices and the decarbonisation challenges.**
- **Accelerate the research, innovation and deployment** of already existing solutions by raising the level and easing the access to EU funds, as well as streamlining all EU programs (IPCEI, SET plan, STEP…).
- Building on NZIA, **further reduce legal and administrative complexity for economic players**: simplify all permitting procedures and stop legal constraints harming companies' competitiveness (see AFEP proposals for the Omnibus Regulation in Annex).
- Support and enable production on the EU territory within a circular economy, **to build a more resilient economy**.
- Take systematically a **value-chain approach** to mobilise all relevant actors in a coordinated way.
- Improve the network of **FTAs and Clean industrial partnerships with third countries** to further secure the supply of critical input as well as markets for the EU industry.
- **In addition** to the urgent **sectoral action plans** already foreseen for **steel, chemicals, and electric vehicles**, consider the possibility of adopting **other specific action plans** for sectors at strong competitive risk (e.g. aviation and aerospace, etc.).

Those objectives should be achieved through the following policy recommendations:

A. Design competitive solutions for the EU energy and climate transition.
B. Support production within the EU territory and protect against the effects of overcapacity in third countries.
C. Boost financing instruments in favour of the transition and ease their access.

A. Design competitive solutions for the EU energy and climate transition

The Green Deal and the “Fit for 55” package have set climate and energy objectives for the 2030 and 2050 horizons through **many legislation and regulations**. While those texts have created visibility on requirements for EU economic actors, they have been conceived and approved mostly **in silos**. They also **fell short of identifying adequate means** to reach the adopted objectives. Finally, apart from the Carbon Border Adjustment Mechanism (CBAM) Regulation, **the other texts have not taken full account of the competitive technological world race** underway and failed to ensure a level playing field for economic actors in the EU.

The recent energy crisis triggered by the war in Ukraine showed that **the current EU framework is not fully fit to ensure the competitiveness of EU companies within the energy and climate transitions**.

AFEP identifies **5 areas of improvement** to be taken on board by the Clean Industrial Deal on this issue.

1. Affordable energy

Companies support the reform of the Electricity Market Design (EMD) adopted in 2024. They consider the Clean Industrial Deal should underline **it is now time to operationalise:**

- the **contract for difference (CfDs)** mechanism, in particular by clarifying the way they can be financed in relation to State Aid Guidelines.
- the concept of **power purchase agreements (PPAs)** with special attention to setting up adequate guarantees to enhance more affordable electricity prices.

At the same time, special attention should be given to promoting access **to competitive hydrogen**.

2. Development of energy infrastructure / interconnections and faster permitting

Building on TEN-E and the NZIA, the Clean Industrial Deal should:

- **Accelerate investments in energy infrastructure:**
    - **In every Member State, the electricity grid should be modernised and extended** to enable electrification, in particular via high-voltage direct current (‘HVDC’) connections to efficiently integrate renewable energies.
    - **Cross-border interconnections and smart grids** should be enhanced to better integrate intermittent energies (‘spatial flexibility’).
    - **New forms of seasonal storage**, such as green hydrogen (‘temporal flexibility’) should be encouraged.
    - **New transport pipelines and storage** for hydrogen and CO_2 should be implemented.
- **Further speed up the mechanisms for granting administrative authorisations** for energy production units and energy-intensive industries.

3. Decarbonisation acceleration and consistency of climate policies for companies

The Clean Industrial Deal should:

- **Ensure the application of technological neutrality** by introducing a **directive setting low carbon objectives**, based on renewable energies as well as nuclear, decarbonised gas, and Carbon Capture, Utilisation and Storage ('CCUS'). This would enable Member States to widen the scope of energies to be taken into account for the decarbonisation.
- **The proposal of any additional EU climate objectives for 2040** should be contingent on (i) a positive assessment of the ability to reach the 2030 target and (ii) a decision regarding actions and resources needed for the 2040 horizon, in coordination with economic actors. It is fundamental to base EU climate objectives on clear and financed action plans, not undocumented intentions.
- **Clarify the climate EU framework when it comes to expected companies' efforts:**
  - **Address climate key issues for companies in a specific document dedicated to climate disclosures rather than in scattered texts (CSRD, CS3D, GCD, CRCF…),** based on existing and forthcoming international standards:
    - Assess the **discrepancy between the Paris Agreement requirements, which apply to States** for their scope 1 emissions only, **and the new requirements of the CSRD and CS3D, applying to EU companies** for their scope 1, 2 and 3 <u>wherever</u> they are located. As a consequence, better nuance in the CSRD and the CS3D the requirements that have to be applied by companies given that many actions depend on third parties and that uncertainty is huge for all those scopes 1, 2 and 3 worldwide…
    - **Assess** why companies' requirements would **only refer to "+1.5°C"** and not to the other objective of the Paris Agreement ("Well below 2°C") considering "+1.5°C" will **unfortunately be reached** by the first years of 2030s.
    - **Better define the notions of: "*compatibility with 1.5°C/ well below 2°C*", "*net zero target*", "*net zero trajectories*", "*residual emissions*", use of credits, "*removals*"…**
    - **Clarify** that "***climate transition plans*" are exclusively defined in the CSRD** and are set up only at **company level**, and **remove the conditionalities introduced in the ETS** requiring climate neutrality plans at installation level, as well as conditionalities for energy efficiency.
  - **Assess** in the EU ETS the impacts on climate and competitiveness of the projected **phasing-out**, by the end of 2030s, **of <u>all new allowances</u>** for companies, as reaching net zero for those EU ETS companies is required well ahead of 2050 compared to other sectors of the economy. Adjust the EU ETS accordingly.
  - **Revise the CBAM Regulation** to ensure a better climate and competitive efficiency in the EU
    - **The phase-out of ETS free allowances** for the sectors covered by the CBAM should **only take place once the effectiveness of the CBAM to prevent carbon leakage has been demonstrated** during its phase II (mandatory purchase and restitution of CBAM allowances for imported products), and **at least two years after the 1st of January 2026.** This should lead to a revision of Article 31 of the CBAM Regulation (correlation between ETS free allowances and CBAM allowances restitution).
    - **A comprehensive assessment should be carried out** with a view to:
      - Extending CBAM **to selected downstream sectors**, based on a cost-benefit analysis for each sector.
      - Designing an adequate and legally sound solution for **export activities**, and relevant provisions to avoid the risk of circumvention.

            - Verifying whether the extension of CBAM **to indirect emissions** is relevant as it could come along with a high degree of complexity and a risk of biased information for products entering the EU.

    - **Maintain and adapt the compensation mechanism for indirect emissions enabled by specific EU State Aid Guidelines**, as they are essential to maintain the EU industry's competitiveness:
        - In view of the revision of the current State Aid Guidelines for 2026-2030, and to ensure better consistency and to avoid competitiveness distortions:
            - The scope of State Aid Guidelines should be **extended to CBAM sectors**.
            - State aid should be based on a **single average EU emission factor**, rather than national emission factors.
        - Decisions should be taken in 2025 to ensure these State Aid Guidelines will be **extended after 2030 until 2040**.

4. Innovation and implementation

AFEP's priorities are the following:

- The Temporary Crisis and Transition Framework (TCTF) should be used as a starting point for **introducing specific state aid measures that are consistent with the EU industrial policy.** With this in mind, the Climate, Energy and Environmental Aid Guidelines (CEEAG) and the General Block Exemption Regulation (RGEC) should be revised as well.
- The different **EU tools for innovation** (Important Projects of Common European Interest -IPCEIs, Strategic Technologies for Europe Platform, Strategic Energy Technology Plan) should be more **consistent**.
- The management of the **IPCEIs appraisal process should be more flexible and simplified:**
    - Authorise IPCEIs with **"at least two States"** involved instead of "4 minimum" at present.
    - Allow for a **much faster and less bureaucratic granting of public support.**
    - For the **initial authorisation** of the project, **introduce flexibility** so that the project may evolve slightly over time and **avoid rejection in its final stage** due to the application of the corresponding State Aid Guidelines.
    - Need to **protect trade secrets and technological breakthroughs** in a wider global context.

5. Better steering by the European Commission's implementation process

In the previous mandate, the European Commission has delivered a huge number of legislative and regulatory texts in application of the Green Deal and the "Fit for 55 package". It is now time for the Commission to steer the way they are implemented and possibly adjust them when they lead to a deadlock.

- **"Fit for 55"**
    - To address the energy and climate transition challenges, the European Commission **should already monitor the implementation of the "Fit for 55 Package"**. This monitoring should be informed by the **input of stakeholders**, with a particular emphasis on those representing the energy and industrial sectors.
    - An **annual review** of all the packages should be organised based on a preliminary identification by those stakeholders of all difficulties to be solved.
    - The European Commission should be able **to adapt level 1 and level 2 legislation accordingly** to ensure that implementation "on the ground" is feasible.

- **Electrification Action Plan for 2025-2030**
    - To tackle the challenge of **electrifying processes in the industry**, a specific Electrification action plan should be designed and implemented by the Member States in coordination with the European Commission.
    - It should **boost access to finance** for the industrial actors and **ensure that low-carbon electricity produced by energy activities is available** (in price and quantity) at the right moment.

In view of these challenges, the Regulation on the Governance of the Energy Union and Climate Action may have to be revised.

B. Support production within the EU territory and protect against the effects of overcapacity in third countries

As the energy and climate framework is of utmost importance for the EU industrial competitiveness, European companies are still facing **loopholes in critical supply chains** (clean and digital industries) resulting in a **lack of resilience or of access to promising external markets**. In parallel, they continue to endure **unfair competition practices by third States** based on domestic preferences or other distortive measures, lower environmental and social standards and/or industrial overcapacities, partially relying on unframed subsidies.

Under previous Commission and European Parliament's tenures, **numerous pieces of legislation or measures** (CRMA, Foreign Subsidy Regulation, Regulation on the access to third countries procurement markets, revision of antidumping basic Regulation and so on) were enacted to tackle these various internal or external obstacles to unleash EU industrial production potential.

At this stage, an important step is the **strengthening of the internal market** and in this respect, AFEP has contributed the public consultation toward the adoption of a new Internal market strategy. It is also now time to **mobilize the regulatory framework** designed during the past tenures for the benefit of EU companies and to **adopt complementary measures** to create further sustainable incentives for EU-based production. We must also address unfair practices from foreign partners while continuing to expand the network of international partnerships required to beef up the EU global resilience.

1. Enhance the EU internal legal framework for sustainably producing within the EU

- **Public procurement** and calls for tender, auctions for renewables and specific product regulations
    - **Ensure the introduction of resilience and sustainability criteria** in procurement contracts or calls for tenders in additional sectors to NZIA-covered ones, targeting a sufficiently high weighting in a multicriteria approach. More generally, the revision of the EU public procurement directives should be an opportunity to ease the use of **green and social considerations in procurement contracts**, starting with the **compliance of bidders with the CSRD reporting obligations.**
    - **Further clarify which treatment to apply to foreign bidders not benefiting from international commitments** following ruling C-652/22 by the CJEU (notably conditions under which individual public purchasers are left to the discretion not to accept foreign bids/bidders or not to accord them the same guarantee).
    - **Assess the opportunity and possible modalities of an EU preference-based system for selected sectors** while abiding by EU international commitments relating to government procurement (GPA and FTAs), guaranteeing the availability and affordability for public purchasers/final consumers and minimising trade tensions.

- **Critical Raw Materials**
  - **Promote the set-up of complete value chains within the EU territory from extraction to recycling** including **intermediary steps** between refinement and industrial application and **easing vertical integration.**
  - **Secure the supply of raw material within the EU and from third-country partners** through FTAs, clean industrial partnerships and CRMA strategic projects, making sure that trade and investment flows are adequately protected (market access commitments and investment protection regimes).
  - **Conduct joint purchase of critical raw material through the Critical Raw Materials Act (CRMA) ad hoc platform** and favour the development **of financial instruments** (derivatives and so on) and/or commodity markets to derisk the purchase of CRM.
  - **Implement the sustainability aspects of the CRMA** by encouraging/imposing the use of sustainability certificates or requirements on the environmental footprint while taking into account supply needs for downstream sectors (price affordability of raw material in particular).
  - **Boost R&D and pre-commercial procurement for substitutive raw material.**

- **Circular economy and harmonisation**
  - **Create a single European market for waste and secondary raw materials / recycled materials**
    - in particular, enable the circulation of materials within the European Union that are to be treated and recycled. At the same time, consideration should be given to limiting the export of waste outside the European Union, at least to third countries that do not meet EU environmental requirements, without setting up unnecessary trade barriers.
  - **Harmonise at EU level end-of-waste status criteria**, with a truly applicable procedure at EU level and foster mutual recognition between Member States.
  - **Experiment with Extended Producer Responsibility (EPR) across EU Member States** under the coordination of the European Commission, while respecting subsidiarity if other tools apply efficiently at Member State level.

2. Trade policy and border measures

Our priorities are the following:

- **Pursue the diversification of supply and markets for EU clean industries through** the conclusion of new or revised EU trade agreements.
- **Assess the opportunity for a revision of EU autonomous tariff lines (= applied tariffs) and EU preferential tariffs in upcoming FTAs** to maintain transformation processes within the EU (e.g.: lowering tariffs for key intrants into transformation processes) and adjust to over-capacities abroad.
- **Adjust preferential rules of origin in upcoming FTAs to increase the percentage of EU/trading partner local content for selected sectors** to prevent trade diversion, subject to the variety and complexity of international value chains.
- **Limit unfair competition** from third countries by more systematic use of EU trade defence tools (antidumping, anti-subsidy, safeguards), EU new instruments (Foreign subsidies regulation and Instrument on access to international procurement market) and safeguard clauses in EU FTAs.
  - **Increase the number of ex-officio investigations.**
  - **Apply more often the notion of risk of injury to trigger investigations or impose duties.**
- **Assess whether an additional trade instrument is required to protect the EU against trade diversion flows** and continue cooperation with like-minded countries on the treatment of **overcapacities** and of trade measures at the origin of trade flow diversions.

C. Boost financing instruments in favour of the transition and ease their access

The shift toward a clean tech economy requires a **large financial support from the private sector and public institutions**.

As private investments are concerned, AFEP insists on the **need to achieve within a few years a Savings and Investments Union** as proposed notably under the Competitiveness Compass published on 29 January. In this respect, AFEP has published specific proposals in its Roadmap on the financing of the economy.

Regarding **public financing**, already existing EU funds fostering technological innovation for the energy and climate transition **do not yet guarantee** sufficient resources to EU businesses. In addition, the procedures for obtaining these funds are significantly **more complex** than the equivalent subsidy schemes available in our main competitors (e.g. tax credits and grants under the Inflation Reduction Act in the United States).

Thus, **our priorities** are the following:

- **Calibrate financing instruments** in line with the political priorities to be announced, taking into account the impact of the transition on the profitability of companies.
- **Streamline existing funds** (EU Horizon, Innovation Fund) and develop future funds (Competitiveness Fund) and **better ease their access.**
- **Ensure that the rollout** of available efficient technologies **is financially supported** by the Competitiveness Fund or other dedicated funds.
- **Mobilise EU funds to subsidise industrial decarbonisation** in line with the principle of **technological neutrality** (electrification, but also fuel switch to natural gas, hydrogen or CCUS).

*

All the substantive proposals listed in this position should be read in conjunction with AFEP's **positions in view of the Omnibus Proposal** (Simplification of the Sustainable Finance Framework, Simplification of other EU Legislation: EU ETS – CBAM – CRMA – NZIA – IPCEI), published in the context of the first hundred days of the European Commission.

About AFEP:

Founded in 1982, AFEP brings together 117 of the largest French companies, which represent 15% of France's commercial GDP, employ 13% of the private sector workforce, and account for 20% of the mandatory corporate contributions in France. AFEP member companies employ 8.5 million people and are key players in the French, European, and global economies across all sectors of activity. Among the 60 largest European companies, a third is a member of AFEP.

Its mission is to contribute to the creation of an environment conducive to the development of economic activity and to make the voice of large French companies heard by policymakers in Paris and Brussels. They are fully committed to the green and digital transition, innovation, and the pursuit of better governance.

AFEP is involved in drafting cross-sectoral legislation, at French and European level, in the following areas: economy, taxation, company law and corporate governance, corporate finance and financial markets, competition, intellectual property, digital and consumer affairs, labour law and social protection, environment and energy, corporate social responsibility and trade.

Contacts:

Nicolas Boquet, Climate, Energy and Environment Director fn.boquet@afep.com
Marc Poulain, International Trade Negotiations Director m.poulain@afep.com
Justine Richard-Morin, European Affairs Director, j.richard-morin@afep.com

Transparency Register identification number: 953933297-85