

EXECUTIVE SUMMARY

While China and the USA are investing heavily in their domestic industries to secure supremacy in the global race for future energy and mobility technologies, European industrial policy remains fragmented. Instead of a uniform strategy with consistent support for key technologies, member states are faced with a confusing web of regulations, directives and initiatives.

This lack of strategic focus means that the EU risks being increasingly left behind. High production costs and large dependencies on raw materials are already forcing the EU to source essential technologies such as photovoltaic systems from China on a massive scale. Simply put, the European energy transition is increasingly becoming an import-endeavour.

This policy paper analyses how existing EU measures can be improved in order to transform a failing approach into a winning strategy. For this, two clusters of EU measures are distinguished:

- EU measures surrounding the **Net-Zero Industry Act (NZIA)**, which aim to expand production capacities for renewable energy technologies in the EU and thus reduce import dependencies.
- Rules surrounding the **Corporate Sustainability Due Diligence Directive (CSDDD)**, which oblige EU companies to comply with social and environmental standards across their supply chains.

A case study of the two clusters focused on the supply chains of three key technologies - solar energy, wind energy and grid technology - confirms that the transition to renewable energy systems under current economic conditions harbours the risk of deepening geopolitical dependencies and causing significant social and environmental damage.

This policy paper therefore recommends that the EU chart a new, independent course of action in the global competition with China and the USA. Instead of adopting the protectionist measures of its competitors, EU decisionmakers should develop an active industrial policy based on international co-operation and sustainable business practices.

Specifically, the paper recommends the following four policy adjustments to create resilient and responsible supply chains for renewable energy technologies in the EU:

1. **Close the funding gap:** The EU should pair its political commitment to the objectives of the NZIA with a financial commitment to ensure the long-term competitiveness of European industry in key technologies.
 - There is a multi-billion euro funding gap between the NZIA's objectives and current EU funding. Both in terms of capital expenditure and operating expenditure.
 - Protectionist measures such as tariffs or local content requirements would further increase these costs and complicate important multilateral cooperation.
 - A significant increase in funding - e.g. in the form of an investment offensive by the *European Investment Bank* or through a new *European Competitiveness Fund* - is therefore the only credible way to expand production capacities for renewable energy technologies in Europe.

- 2. Discriminate technologically and integrate at the European level:** When implementing the NZIA, member states should prioritize proven renewable energy technologies as well as promoting a balanced European distribution of manufacturing sites to enhance the EU's competitiveness as effectively as possible.
 - Member states have room to manoeuvre when it comes to implementing the NZIA and should use that freedom to correct the measure's deficiencies.
 - Instead of wasting NZIA funding on unsustainable, not properly tested technologies such as nuclear power or alternative fuels, Member States should focus on tried and tested renewable energy technologies.
 - Furthermore, the strengths of different economic regions in the EU should be utilised to create economies of scale that will benefit the Union as a whole.
- 3. A proactive trade policy that is driven by values:** The EU should actively support third countries and local stakeholders within the framework of the CSDDD in building capacities to recognise and sanction sustainability violations.
 - Legal uncertainties regarding the compatibility of the CSDDD with regulations in third countries could lead EU companies to prematurely terminate trade relations in the Global South.
 - To prevent this, the EU should proactively approach third countries to ensure that the new due diligence obligations are properly integrated into national legal systems and thus ensure that labour and environmental conditions are genuinely improved.
 - Furthermore, undertaking multi-stakeholder initiatives with affected communities, trade unions and NGOs would lend the CSDDD important legitimacy.
- 4. Strengthen remedy mechanisms:** Member States should create strong remedy mechanisms for harmed parties when implementing the CSDDD so that its due diligence obligations can be properly enforced.
 - The CSDDD lacks clear guidelines on how victims can assert their claims, which severely jeopardises the enforceability of the directive.
 - Member states should therefore create effective complaint mechanisms when implementing the CSDDD – including victim representation by civil society actors as well as a reversal of the burden of proof in favour of people and nature.

These policy recommendations would transform the EU's fragmented approach into a coherent industrial strategy that refuses to pit the expansion of European production capacities against the imperative of a more sustainable economy and instead joins these two goals together.

The European Commission's plan for a *Clean Industrial Deal* offers a unique opportunity to mobilise the necessary financial resources for this shift. If the EU acts decisively now, it will be in a position to achieve the NZIA's targets and thus able to successfully assert itself as a leader in the global competition for the technology markets of the future.