

Polish non-paper on main factors reducing European competitiveness and the role of Industrial Accelerator Act

European industry, the backbone of the EU's economy, faces critical existential challenges. We must urgently take actions to stop deindustrialisation and ensure Europe's economic security, sovereignty and resilience. Future initiatives aimed at supporting our industry should address the main factors limiting competitiveness, such as the systemic problem of high and volatile energy prices, the stifling problem of overregulation and unfair competition from third countries. The work on the IAA, together with the ongoing debate on the revision of the European Climate Law, provides an opportunity for reasonable adjustments to the ETS and CBAM in relation to industrial sectors. In this context, the following will be key:

- revision of EU ETS, including the introduction of mechanisms to limit price volatility, postponing the phasing out of free allowances, and allocating additional allowances, is crucial to avoid further increase of production costs and thereby weakening the competitiveness of European industrial products;
- revision of ETS2, including postponement of its entry into force until 2030. We welcome the intention of the European Commission to present as soon as possible a proposal of the ETS2 framework revision, confirmed at the ENVI Council in November, to avoid high and volatile energy prices and costs for households. This would provide time for the development of effective price stability mechanisms, since the sectors covered are particularly prone to price volatility due to low demand flexibility combined with seasonal fluctuations in energy demand, variable fuel prices and the initially limited market size. Earlier implementation of ETS2 might also negatively impact the competitiveness of the European industry (including the chemicals sector), due to increased costs of transportation of raw materials, semi-processed and finished products, as well as additional operating costs for installations not yet covered by the EU ETS, and additional burdens for ETS1 installations due to double counting the emissions in ETS2;
- proposing sector-specific solutions for the defence industry in relation to the costs incurred for the purchase of ETS allowances at various levels of the production chain, with a view to reducing defence production costs within the EU;
- reviewing decarbonisation targets and revising those that are unachievable or place a disproportionate burden on industry – examples include the RED III targets for transport and the RFNBO targets for hydrogen. As for transport, there is a high probability of uncontrolled fuel price increases, that could exacerbate the problem of access to sustainable mobility and have negative consequences for the entire EU economy. This risk is amplified by the insufficient availability of sustainable fuels on the EU market and the limited capacity of suppliers to scale up production at the pace required by the current RED III targets, particularly in road freight transport. Similarly the RFNBO target, without dedicated support instruments, may significantly reduce the competitiveness of industrial sectors that use hydrogen in their production processes, particularly the fertilizer sector, as well as create new dependencies linked to the imports from overseas. The use of possible alternatives, including blue hydrogen, should be considered;
- an ambitious simplification agenda: the announced environmental omnibus must include further changes to the Deforestation Regulation (EUDR), the Industrial Emissions Directive and the Urban Wastewater Directive; the Green Deal regulations must also be reviewed to identify and change unrealistic targets or disproportionate obligations; the future energy omnibus must be ambitious and pragmatic in simplifying energy product legislation. Future simplification initiatives should also include a systematic assessment

of the cumulative regulatory burden on industry to prevent overlapping obligations and ensure regulatory coherence;

- reforming the CBAM to prevent circumvention more effectively, including by extending the CBAM to additional sectors vulnerable to carbon leakage, as well as to new products, including those further down the value chain. The impact of the extension needs to be carefully assessed in consultation with the sector concerned. Solutions should also be developed to support EU exporters of products covered by the EU Emissions Trading System (EU ETS). CBAM adjustments should also address the disproportionate administrative burden for SMEs and complex value chains, ensuring that compliance obligations do not hinder their ability to operate on global markets.

Support for industrial decarbonisation in the IAA

The announced IAA should include measures aimed at decarbonising strategic sectors, including traditional and energy-intensive ones. These measures should first and foremost ensure the global competitiveness and resilience of these industries in Europe. Decarbonisation of EU's economy by 2050 by its deindustrialisation would be our joint failure.

Financial instruments supporting decarbonisation of the electricity sector should respect the principles of technological neutrality, solidarity and geographical balance in EU. Any strengthening of the Innovation Fund or development of Industrial Decarbonisation Bank should not be at the expense of the Modernisation Fund or the pool of auctioning allowances allocated for EU Member States. Further measures to reduce energy prices are indispensable – in this regard the IAA proposal should coincide with the EU ETS and CBAM revisions.

In the context of investments in the decarbonisation of strategic sectors, the principle of technological neutrality – understood not as one-size-fits-all approach but as properly reflecting each technology's unique contribution to reaching the overarching goals by each Member State and the EU as a whole – is crucial. It guarantees all Member States equal opportunities in their green transition efforts and is a prerequisite for the green transition to be realistic, cost-effective and fair. Its absence could lead to the marginalisation of industry in those Member States where industry continues to rely on older technologies and further widen development disparities within the EU. Therefore, financial support under the EU budget, including in the context of the next Multiannual Financial Framework, should reflect this principle to ensure that investment-supporting programmes and financial instruments effectively enable a balanced and technologically neutral transition across all Member States.

Particular attention should be paid to the automotive, chemical, pharmaceutical, steel, cement, defence and food industries, renewable energy and the electromobility sector, which includes the production of batteries, electrical components, charging infrastructure, and zero-emission vehicles, and is one of the key drivers of innovation and industrial transformation in the EU. Strengthening these industries will increase the EU's economic security and independence in an era of competition with China and growing economic protectionism in the US, which is consistent with the preliminary objective of the IAA.

The defence industry in particular requires measures to promote efficiency and rapidly ramp up production within the EU. This justifies the introduction of sectoral support mechanisms or allowances that would cover the costs resulting from the inclusion of installations at various stages of the production chain in the EU ETS, including energy, transport and European steel.

At the same time, the IAA must give impetus to the development of new, innovative sectors that will strengthen decarbonisation goals. It is important to support the industrial use of captured CO₂ within CCUS technology and to promote the use of hydrogen as the foundation for creating a hydrogen economy.

The IAA should also support the creation of regional industrial clusters that jointly invest in the infrastructure necessary for decarbonisation, including hydrogen infrastructure across the entire supply chain, as well as CO₂ storage facilities, CCS/CCUS installations and energy management systems. This will enable effective cost sharing, better use of resources and accelerate the transformation of entire industrial regions.

However, until effective mechanisms reducing electricity prices for industry are implemented, the use of energy-intensive decarbonisation technologies, such as CCS, will be limited or even impossible in practice.

Creating demand for decarbonised products

Demand for net-zero technologies and products is currently insufficient to drive investment and production across Europe. Therefore, instruments that encourage investment in new technologies should be included in the IAA. These include among others: implementing sustainability, resilience, and European preference criteria for public procurement, offering green labels, establishing "green premiums" to encourage sustainable products by making them more price-competitive, introducing market guarantees from governments or private entities to mitigate risk, harmonizing calculation methods for carbon footprint, simplifying and speeding up authorisation procedures and financial instruments.

All these instruments could be important tools to create European lead markets and support EU industry, but still the results will largely depend on their calibration.

Therefore, provisions obliging institutions and contracting entities in the EU to apply Made in Europe requirements and EU preferences in procurement should be established progressively on the basis of in-depth impact assessments of such provisions. The impact assessments should address measurable benefits for particular sectors of the EU economy as well as measurable costs for individual categories of public contracting entities in all EU Member States. They should also refer to effectiveness and efficiency of public procurement, including possible increase in public expenditure and risks related to increased administrative burdens.

It is necessary to establish a simple, consistent method for determining what should be considered a 'European' and 'EU-manufactured' product in public procurement, in order to facilitate the application of the new additional requirements by various public contracting authorities in the EU. However, challenges in determining what exactly constitutes "EU manufactured" may be diversified across sectors concerned, therefore detailed qualifiers should be adapted to specificities of those sectors.

The inclusion of such criteria in public procurement should encourage the integration of all Member States into value chains as an essential part of the resilience programme. In this context, we draw attention to the risk of focusing procurement exclusively on entities from countries that are most advanced in the energy transition process.

A set of simple and flexible tools that can be used to procure Made in EU and apply EU preferences in public procurement covering products from various strategic sectors should, first and foremost, be established in EU public procurement directives to be used by various institutions and contracting entities in the EU, while respecting the EU's international commitments.

However, non-financial instruments will not solely solve all the problems associated with bringing low-carbon products to market. Appropriate financial support systems are also necessary, tailored to the diverse national conditions of individual Member States, resulting, for example, from the need to incur increased defence expenditure in some countries, which, however, contributes to the security of the EU as a whole.

At the same time, financial support cannot be limited to relaxing the rules for granting state aid at national level. The IAA should take into account mechanisms that strengthen level playing field (LPF) within the EU itself. Ideas from the Letta's Report may be reconsidered in this regard, e.g. making state aid conditional on allocating part of national funds to finance pan-European initiatives and investments.

The methodology for calculating carbon footprint of production processes - delegated act on carbon footprint calculation methodology for EV batteries

Carbon footprint calculation also plays an important role in the development of green technologies. We are currently awaiting for a delegated act on carbon footprint calculation methodology for EV batteries. However, the chosen methodology most probably will have an impact on other areas.

Poland strongly opposes any proposals for methodologies that require the use of the average national carbon footprint of the energy network to calculate and verify the carbon footprint. The methodology for calculating the carbon footprint of production process of electric vehicle batteries should be based on the actual energy mix used by the respective factory or economic operator as required under the Batteries Regulation, thus not on the "national average energy mix".

Alternatively, the methodology in question should be based on the average EU energy mix - without switching to the national energy mix. Especially in light of the ECL revision (90% target as per 2040) referring in the methodology in question to national average energy mix would be an inadequate approach, given that the EU as a whole is already embarking on a path of accelerated decarbonisation and the new target will force further decarbonisation of the electricity sector.

Technical aspects should not determine policy goals. Calculating the carbon footprint of products and goods has a number of consequences for the economy, both at the macroeconomic level and for individual companies. Reducing this footprint requires intensified investment in renewable energy sources, and other low carbon generation, like nuclear power, modernisation of the energy sector and reducing the dependence of electricity production on coal.

In this context, market-based instruments such as Power Purchase Agreements (PPAs) and Guarantees of Origin (GOs), as provided for in Directive (EU) 2018/2001 on the promotion of renewable energy sources (RED), should likewise be recognized. The chosen methodology must safeguard the validity of existing PPAs, which can be used by companies as evidence of energy decarbonisation and must not undermine such contractual arrangements.

Possible introduction of labelling that specifies the carbon intensity of industrial products should be carried out in a way that takes into account national circumstances, ensures no negative impact on the competitiveness of the EU internal market, and respects the competitive position of EU companies on external markets, in particular given that the data (based on the EU ETS and CBAM) could be used in the development of tax incentives and other support mechanisms.

Ensuring economic security

In light of the current challenges to the resilience of European industry, the Industrial Accelerator Act may also include provisions that contribute to the implementation of the economic security strategy. This refers i.a. to foreign direct investments. Investments in strategic sectors – such as renewable energy, batteries, semiconductors and electric vehicles – should bring lasting added value in the form of technology transfer, skills development and

integration into EU value chains. Otherwise we risk even more replacing previous, fuel dependencies of the EU with new – technology ones.

New investment assessment should be subject to objective criteria, including measurable benefits for the EU economy, such as new jobs and technology transfer. We need to bear in mind that investments by some third countries are risky and are made with a view to obtaining other benefits, such as data acquisition. Any foreign investment should strengthen the EU economy, and cannot undermine its economic security or public order.

On the other hand, new EU legislative initiatives in this regard should neither place a disproportionate burden on European manufacturers nor limit the development of domestic production capacity in this area.

An important part of our economic security is protecting our steel industry and preventing scrap leakage to countries with lower environmental standards. The overriding objective in this regard is to improve the availability of scrap metal on the European market. This may be achieved through import facilitation and EU initiatives, while maintaining an open market. We call for monitoring of scrap metal exports outside the EU, modernising Regulation (EU) 2015/479 to allow for possible export restrictions and adding scrap metal to the list of secondary raw materials of strategic importance.