Istituto Affari Internazionali
Inspiring Ideas for Italy, Europe and the World

POLICY RECOMMENDATIONS

GEOECONOMICS OF THE EUROPEAN GREEN DEAL*

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'European Green Deal: Reaching Beyond Borders'

1. PROTECTIONISM VS INTERCONNECTIVITY

BACKGROUND

- The US IRA might harm Europe's competitiveness through its **subsidies conditional on local-component requirements**.

What is the best policy response?

EXPECTED POLICY

- The EU needs to find the right equilibrium over resilience and efficiency.
- The EU should benefit from the IRA: coupling it with EU internal policies (i.e. NZIA), the IRA could represent a **breakthrough for energy transition** in the US, the EU and most of the rest of the world by reducing the cost of clean energy technologies.

RECOMMENDED ACTION

- **Strengthen competitiveness** through its own strengths: competition and single market integration.
- **Avoid embracing excessive and ineffective protectionist policies,** such as local-component requirements.

2. EXTERNAL DIMENSION

BACKGROUND

- The EU-led energy transition process, if not managed well, is likely to be to the detriment of non-EU countries.
- The EU's decarbonization effort is of little use if it is not implemented outside the EU's borders as well.

How to engage EU partners to implement a serious energy transition pathway?

EXPECTED POLICY

- The EU should **engage with external players** to ensure a **just** transition: higher **ESG standards** and **non-price criteria** can be essential elements vis-à-vis third countries.

RECOMMENDED ACTION

- Leverage on its **industry strengths** as a competitive advantage over competitors, thanks to:

1. its strong track record on high environmental and sustainability standards
2. active engagement with local communities

3. INDUSTRIAL POLICY IN KEY SECTORS

BACKGROUND

- EU target: **at least 40%** of the annual need for strategic zero-emission technologies **must be produced in the EU by 2030** (Net Zero Industry Act).
- Redrawing global supply chains and building alternative, new manufacturing capabilities for all technology sectors demand massive amount of money.

How to avoid waste of money and market distortions?

EXPECTED POLICY

- The EU should carefully **assess in which sectors** it can increase its industrial capacity to enhance strategic autonomy and reduce dependencies (i.e. PV, batteries and heat pumps).

RECOMMENDED ACTION

- **Enhance manufacturing capacities** in selected sectors (e.g. **heat pumps**) where achievable in terms of capitals and time.
- **Accept some interdependence** on others (e.g. **existing solar panels**).
- **Identify governance mechanisms which can provide guidance for the implementation** of the strategic vision on value chains.

4. TECHNOLOGICAL SECTORS AND REGULATORY ASPECTS

BACKGROUND

- The EU has limited control over strategic **supply chains** for the energy transition, which it often exercises only **downstream**.
- **Slow and cumbersome permitting procedures** are detrimental to the innovation and development of the European clean energy industry.

What can the European Union do to make its clean energy industry more competitive globally?

EXPECTED POLICY

- The EU should **broaden the industrial and strategic thinking to the entire supply chains**, without limiting the effort and commitment to end products, such as batteries or solar panels.

RECOMMENDED ACTION

- **Scale up manufacturing** capacity for the different segments of supply chains to build and strengthen healthy and competitive supply chains.
- **Expand the recycling** sector to reduce the environmental impact of clean energy technologies, develop new industry and jobs as well as lower dependence on mineral imports.
- **Prioritize high value-added components and technologies**, through R&D and R&I to gain technological relevance and economic growth.

5. CRITICAL RAW MATERIALS

BACKGROUND

- Energy systems are switching from fossil fuel-intensive to mineral-intensive, thus reshaping global energy supply chain.

How can the EU build a secure and affordable supply chain of CRMs?

EXPECTED POLICY

- The EU should promote a **strategic and coherent approach** by **incentivizing investments** especially in those materials that represent a strategic vulnerability and bottleneck.
- It is crucial for the EU to cooperate with key international partners and allies.

RECOMMENDED ACTION

- Cooperate – jointly with the US - with **third countries** in favoring the build-up of a stable and secure industry for the upcoming increased demand.
- Extend cooperation beyond production and refining activities, so to gather political commitment for **higher transparency and standards** in the CRM markets.
- Evaluate the **creation of an agency or department**, also within existing international fora, that oversees this matter.

6. SCIENTIFIC AND TECHNOLOGICAL COOPERATION

BACKGROUND

- The energy transition presents industrial, social and economic opportunities for the EU, pushing for innovative solutions to address **global competition**, foster **scientific and technological development** and meet the demand for **skilled jobs**.

What should the EU do to find new solutions to these challenges?

EXPECTED POLICY

- The EU should build **new cooperation frameworks** for scientific and technological development, R&D and R&I funds and programs, as well as promoting the training of **new job skills**.

RECOMMENDED ACTION

- **Work with friendly countries**, such as the US and Japan.
- **Work with emerging economies**, like India and African countries, to foster also just transition.
- **Not neglect cooperative framework with China**, given its ambition and role in the global energy transition.