European Office

VDMA reaction to the proposal for a Net Zero Industry Act

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem (Net Zero Industry Act)

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VDMA welcomes the European Commission's proposal on the Net-Zero Industry Act (NZIA) and, in particular the inclusion of Machinery and Manufacturing equipment as an essential part of the net-zero value chains**.** The manufacturing technologies represented by VDMA are the basis for the resilience and technological sovereignty of the EU, while they contribute to achieving the Union's 2030 climate and energy targets.

Therefore, many activities of our member companies will fall within the scope of NZIA, and companies might, in theory, benefit. It remains still unclear, however, to which extent the benefits of the recognition as a part of a "strategic net-zero technology" value chain will be accessible to companies, in practice, in particular to SMEs. We fear demarcation problems and thus uncertainties, inefficiencies, and bureaucratic burdens. Additionally, many companies falling outside the scope may experience the privileges for certain technologies as a discrimination, for example, if capacities of public authorities are prioritized for net-zero projects. Therefore, for our sector, the Net-Zero Industry Act brings both opportunities and risks. In the upcoming legislative process, the balance between privileges on the hand, and disadvantages on the other hand must be improved. With the following comments and recommendations, we would like to contribute to this process.

1. Summary

- In general, the EU Commission's ambition to make the European Union a competitive location for green technologies and to increase resilience of supply chains is right and important. **VDMA especially welcomes the increased attention for industrial manufacturing.**
- However, selecting certain technologies for prioritized treatment might create a "two-speed" economy. This approach is misplaced because industrial value chains are not linear but complexly intertwined (as components for NZIA technologies are also used by other technologies, e.g., gearboxes and brakes are both used for mobility and wind turbines). **The economic policy of the EU should rest on a technology-neutral and market-based approach with the aim of increasing the EU industry's competitiveness for all sectors.** Also, streamlining administrative and permit-granting processes shall therefore be a general objective.
- To boost manufacturing capacity and competitiveness and to facilitate **the assembly and installation of net-zero projects**, it is important that the **whole value chain is fully covered.**
- In our view, the NZIA is not sufficient and can only be a short-term building block of a fundamental EU strategy for competitiveness. Securing longer-term competitiveness requires a **systematic analysis of the competitiveness of the EU as location for manufacturing**, including of net-zero technologies.
- To clarify and justify the prioritization of certain economic activities**, a clear set of criteria for selecting** "net-zero technologies" or "strategic net-zero technologies" must be established.

- In addition**, the approach to selectively accelerate permitting procedures for certain strategic projects is insufficient, as it does not address the issue that the substance and overall burden of regulation itself is often inappropriate and a barrier to commercial upscaling.** What is needed is a "deregulation strategy" to facilitate and accelerate decarbonization. One example is hydrogen, where the barriers to upscaling and commercial roll-out are caused by too narrow definitions and small-scale, overly detailed regulations. Another example is the administrative burden for grid infrastructure, renewable energy projects and transport. Notably, constantly changing and tightening the regulatory framework for green technologies fails to promote a stable and predictable environment which can attract investments and ultimately boost the deployment of these technologies. This is a specific challenge for small and medium-sized companies.
- We therefore recommend including in the NZIA a provision which envisages a **comprehensive screening of the consistency of the targets and measures of the NZIA with legislation on EU and national level**, identifying the underlying reasons for slow uptake or the lack of investments. The goal must be to shape a uniform and simple regulatory framework aiming at legal, administrative, and financial stability which sets the foundation for accelerating the manufacturing of these technologies and reaching the EU climate and energy targets.
- With regard to public procurement, we suggest refraining from a broad opening of public procurement criteria by making the sustainability and resilience criteria mandatory. **The use of non-price criteria requires careful examination as the additional costs do not outweigh the benefits**. The use of resilience criteria to procurement should be limited to narrowly defined components relating to critical infrastructure in line with European Cybersecurity Regulation.

2. VDMA´s assessment and recommendations

VDMA strongly supports the objective of the proposal to scale-up the manufacturing capacity of net-zero technologies. For this, framework conditions for market-based solutions should be created. Increasing manufacturing capacity without strengthening the domestic market and export opportunities would be counterproductive.

Aiming at creating an effective and fit for purpose legislative instrument, VDMA appreciates the opportunity to provide recommendations on key elements of the NZIA proposal.

Positive Elements

VDMA welcomes specifically the following points in the NZIA proposal:

- Coverage of the full manufacturing value chain, incl. components & machinery (Definition Art. 3.1.a & 3.1.s): *"They refer to the final products, specific components and specific machinery primarily used for the production of those products."* To boost manufacturing capacity and competitiveness, it is important that the whole value chain is fully covered. For instance, for the assembly and

installation of wind turbines, it is important to include all components and infrastructure (e.g. rotor blades, nacelles, gearboxes, generators, cables, ships, seaports).

- The objective of 40% relates to the manufacturing capacity (Art. 1.2) and there is no obligation to actually use "EU-manufactured" net-zero equipment in the EU. It is essential that this objective stays as an indicative benchmark and does not become an import production quota. By their very nature, rigid quotas are economically inefficient.
- The goal shall not be to cut global supply chains. A realistic and strategic look is needed at which components and levels of the supply chain have a one-sided dependency which needs to be countered. EU industries rely on imported (sub-) components and/or raw materials – in some cases reshoring might be feasible, while in other, the EU will never have a competitive advantage. In the latter case, the diversification of the supply chain should rather be the target in the medium to long term.
- Skills/European Net-Zero Industry Academies: It is welcomed that it is acknowledged that developing skills and qualifications is also important for increasing the manufacturing capacity of net-zero technologies. In general, however, there is already a shortage of workforce in industry sectors. There should be more focus on promoting jobs in NZIA sectors while overall aiming at net job creation (incl. the training of young people). Additionally, the aspect of freedom of movement inside the EU and from third countries well as the recognition of skills and qualifications are missing from the proposal.

Proposed Modifications

VDMA encourages the co-legislators to modify the points below:

- The inclusion of "components" and "specific machine" in the value chain is crucial, but further clarification is needed. Specifically, we propose the amendment of the "component" definition (Art. 3.1.b), because value chains go across various tiers, while manufacturing of components does not start always with processed materials and the component is not necessarily "small", and neither necessarily "traded" (could be produced by the same company as the final product): *"'component' means a* ***~~small~~ manufactured*** *part of a net-zero technology* ***end-product ~~that is manufactured and traded by a company starting from processed materials;~~***"
- The Net-Zero Platform should include industry experts as representatives, and not only have the possibility to invite them as per Art. 29.8. Having them as permanent representatives, industry experts can participate as neutral parties providing technical advice and their expertise for the promotion and global adoption of net-zero technologies.

- Under Chapter IV, NZIA makes the sustainability and resilience criteria mandatory, which is against the current voluntary approach, and extends the current framework. The use of non-price criteria requires careful examination so that additional costs do not outweigh the benefits. The obligation of public authorities to use sustainability and resilience criteria in public procurement procedures, in renewable energy auctions and in incentive schemes for households and consumers, is an attempt to introduce a “Buy European” requirement into EU public procurement. This entails a risk, as public authorities might use this obligation as an excuse to favor national or even local companies and therefore endanger the integration of the Single Market. Therefore, we suggest refraining from a broad opening of public procurement criteria which are susceptible to protectionism and nepotism. One option could be limiting the obligation to include resilience criteria to procurement related to critical infrastructure, but also in this case it must be at EU level and limited to specific components infrastructure in line with European cyber security regulation. Instead of setting non-price criteria for technology aspects, the NZIA could strengthen the focus on prequalification criteria – harmonized across the EU and ideally based on international standards.
- The explanatory memorandum mentions that “[t]he Commission will evaluate the output, results and impact of this proposal three years after the date on which it becomes applicable and every four years thereafter” (p. 12) appears inappropriate as the timeframe for achieving the NZIA target is less than seven years. Considering that an impact assessment was not conducted to provide preliminary evaluation of the impact of the proposal, we would be in favour of a longer evaluation timeline.

Additional points

- In general, we welcome the technologies proposed by the Commission, most notably Wind Energy, PV, Hydrogen and CCS which have high potential both in terms of reaching the net-zero targets and market value. However, more technologies, such as hydropower or hydrogen technologies, including hydrogen engines and turbines need to fall within the scope of NZIA, because they are carbon free and competitive solutions which will substantially contribute to the security of supply of energy systems.
- The EU Commission´s proposal does not provide sufficient information why the listed net-zero technologies and strategic net-zero technologies have been selected in the definition (Art. 3.1.a) and in the Annex. According to the proposal, three criteria have been used (p.15): 1) technology readiness level, 2) contribution to decarbonisation and competitiveness, and 3) security of supply risks. However, there is no detailed quantitative analysis provided which could explain and justify the selection of these technologies for prioritized treatment.

Also, defining net-zero technologies as renewable energy technologies under the definition given in the Renewable Energy Directive 2018/2001 seems to be inconsistent with the context of the latter definition and the selected net-zero technologies, since not all renewable energy sources, e.g., hydropower, are covered as net-zero technologies. Hence, with a view to future amendment of the Annex, we recommend establishing a clear set of criteria for selecting "net-zero technologies" or "strategic net-zero technologies".

- The NZIA and the GDIP focus mostly on manufacturing capacities of mature net-zero technologies, with the exception of the "regulatory sandboxes". In order to ensure the competitive manufacturing of net-zero technologies and the availability of state-of-the-art technologies in the next 5-15 years, the GDIP should be complemented by an R&D&I-pillar (taking the Chips Act as a blueprint). In the short term, this pillar needs to support the transfer, uptake, and upscaling of innovative manufacturing technologies. In the medium to long term, increased R&D-support for the development of advanced manufacturing technologies is crucial – both for advanced manufacturing in specific net-zero value chains, but also for manufacturing and industrial technologies in general. It must be granted as simply, fast, and early as possible.

Need for clarification

Ultimately, we would like to draw the attention to the following points which in our view need further clarification during the legislative process and the implementation:

- The One Stop Shop procedure (Art. 4) should not become an additional layer of administration, because it will be impossible to replace the current responsibilities of the authorities. It should rather focus on how different administrative layers improve their collaboration and how to make processes more efficient (also through means of digitalization).
- Art. 11.3 states that Member States have the discretion to assess the application for the recognition of a project in a fair and transparent process within one month. In the absence of such a decision within this timeframe, the project is considered to be approved as strategic. The latter approval with no decision goes against the fair and transparent process of the recognition procedure, which falls within the Member States' competence. Having obtained a strategic recognition with no decision would then create administrative confusion for the grant-permitting authorities when examining permits for strategic projects that have obtained official recognition decisions and those with no such decisions.
- The NZIA should incorporate further provisions on how to finance the needed scale-up of manufacturing facilities (available funds, access to low-interest rate debt etc.) as available funds often focus on innovation and less on scaling up manufacturing of more mature technologies (wind energy, solar, grids etc.).

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