Designing an Industrial Decarbonisation Bank
The Netherlands

Problem definition

As the European Commission estimated[1] and Draghi[2] mentioned, **significant investments** are needed for the European energy intensive-industries (EII) to achieve carbon reduction and remain competitive, particularly in scaling up new clean technologies and strengthen circular value chains. However, the EII are currently struggling and the clean transition of the EII is in an extremely difficult phase. As a result, **sustainability investments** by the industry (including high-value sectors) **are being postponed**, fail to materialize, or industrial activities are being relocated abroad (leakage).

The focus of EU supporting schemes for the clean transition currently lies strongly with fundamental and disruptive innovation and developing new technologies or already bankable projects (EIB). However, the **scaling up and commercialization** of market applications of clean products, which might not yet be fully bankable, is suffering from several barriers and insufficiently taken into account. Consequently, investment certainty for Technology Readiness Levels (TRLs) further down the line and the uptake of "first of a kind" (FOAK)-technologies is **lacking behind**, as well as in the general uptake of clean and green products, as **lead markets** for energy-intensive sectors are still in development. This, in combination with the current challenges of the EII, makes the rendition of investments in decarbonisation projects in the EII **more uncertain**.

While policy initiatives to boost sustainable production routes (e.g. ETS/CBAM) are in place, the European EII currently lack sufficient **specific** and **streamlined support** and coordination for clean investments, in which the **entire innovation chain** is viewed in a **coherent** manner. A more coherent EU landscape for the EII can and could be supported by the possibilities offered under the **European Competitiveness Fund** (ECF), **within** the 'Clean Transition and Industrial Decarbonisation" pillar. The ECF can complement existing financing aimed at making European industries more sustainable and exists alongside the IF and EIB as an accelerator for industrial sustainability. Within the ECF, targeted support for the EII could be part of **a seamless investment journey** to accelerate sustainability and strengthening competitiveness.

Policy objectives and design

The **Industrial Decarbonisation Bank (IDB)**, first mentioned by the European Commission in the Clean Industrial Deal[3], would be a suitable instrument to fill this current gap in the existing EU financing landscape, whilst maintaining **coherence** between and avoid overlap with existing funds:

- The IDB must maximize industrial decarbonisation and EU competitiveness, and strengthen climate objectives, and increase strategic autonomy. The IDB should support projects within the scope of **three policy objectives**, namely:
    a. Investing in the conversion of existing facilities of EII to sustainable ones, by investing in (capital intensive) industrial sustainability projects.
    b. Investing in the scaling up of clean technologies to an industrial scale (TRLs 6-9, FOAK-uptake), by closing the financing gap between innovation and market-wide applications.
    c. Strengthen circular value chains, including critical raw materials, green and circular chains for chemistry, sustainable feedstock, materials and recycling.

[1] Investment needs assessment and funding availabilities to strengthen EU's Net-Zero technology manufacturing capacity (SWD) (p.9/10)
[2] The future of European competitiveness (p.39 & p.46)
[3] The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation (p10/11)

- The IDB should use public funds to **de-risk** large-scale industrial decarbonisation projects to **attract private investments**. It could combine subsidies and risk-sharing instruments (grants, loans and auctions-as-a-service) to **maximize its impact**. Additionally, the IDB can help complement the ETS price signal, boosting private investments in turn. It also provides long term certainty for investors that investing in the clean transition is supported in the EU.

- Support from the IDB should be **technology neutral** and based on **competitive selection** to maximizing emission reduction where possible.

- As mentioned in the CID, the Commission will propose to fund the IDB through ETS and/or CBAM revenues. Any potential use of those ETS or CBAM revenues that are part of the MFF negotiations in the European Council should not be directed to the IDB directly. **Solid conditionalities** for obtaining support from the IDB are necessary to prevent the IDB from supporting sweating assets, i.e. into industries unwilling to decarbonize that will end up leaving the EU. Public funds must therefore be deployed exclusively to **future-proof industrial sectors** and sustainable production routes that play a **strategic role** in boosting EU competitiveness and decarbonisation.
    - The IDB should **pay special attention** to sectors with a **high risk of carbon leakage**, being in an even more difficult position, complementing the ETS and CBAM, creating both the **proverbial stick and carrot** needed for the clean transition. This pertains to the chemical industry, as well as various CBAM-sectors (high trade intensity).

<u>Temporary Investment Booster</u>

- While the IDB could play an important role in strengthening Europe's industrial competitiveness and decarbonisation after the ETS-review has been completed, the challenges faced by energy-intensive industries in **all EU member states** are **immediate** and require urgent support.
- The Netherlands remains against creating new funds outside the MFF competing with existing funds.
- Any reallocation of ETS revenues that already have been assigned should **not come at the expense** of ETS-revenues dedicated to Member States and existing climate objectives or instruments, in particular the **Innovation Fund**, whose size, integrity and effectiveness must be preserved. In addition the Investment Booster cannot be funded by bringing additional allowances in circulation.