

## The Net-Zero Industry Act: a micro-management approach to boost net-zero technologies

The EU's Net-Zero Industry Act (NZIA) aims to improve the framework conditions for the manufacturing of clean technologies in Europe while ensuring the reduction of strategic dependencies. 19 net-zero technologies are defined, while manufacturing processes along their respective value chains may also benefit. This is the first time that an EU legislation recognizes specifically the enabling role of mechanical and plant engineering for reaching climate neutrality. The legislation brings certain administrative benefits for net-zero manufacturing projects and introduces for the first time mandatory non-price criteria for public procurement and auctions. The latter aim at establishing a level playing field for EU clean tech manufacturers prioritizing their projects in public tendering procedures.

### Part of EU's green industrial policy

The NZIA is part of the Green Deal Industrial Plan (GDIP) presented in February 2023, triggered by the Inflation Reduction Act in the USA. This plan responds to growing concerns about the economic competitiveness of the EU's Green Deal and aims at scaling the EU's manufacturing capacity for net-zero technologies needed to meet the EU climate targets. The role of the NZIA is to provide the regulatory framework for the manufacturing of these technologies and their supply chains to strengthen production capacities in the EU.

### Setting targets

The NZIA sets two indicative benchmarks to monitor the progress of net-zero manufacturing capacity. By 2030, the manufacturing capacity of the listed technologies is supposed to meet 40% of the EU's annual deployment needs for the corresponding technologies. By 2040, the manufacturing capacity of these technologies should reach 15% of the world production. Additionally, the Act paves the way for CO<sub>2</sub> injection in the EU by having a target of at least 50 million tonnes of CO<sub>2</sub> to be stored annually by 2030.

### Benefited technologies

The 19 listed technologies vary between renewable and low-carbon solutions, such as wind, PV, CCS, and hydrogen. Additionally, decarbonization projects in energy-intensive industries can also fall within the NZIA scope as long as the business is part of the supply chain of one of the listed 19 technologies. The value chain approach of the NZIA covers the manufacturing of the components and machinery of these technologies. However, regarding machinery, the project promoter needs to provide evidence indicating their essential role for the manufacturing project to enjoy the administrative NZIA benefits. Future secondary legislation will determine the primarily used components, whose manufacturing capacity will directly benefit. The VDMA calls for an inclusive value chain approach including mechanical and plant engineering, as value chains are both interlinked and complex and cannot be categorized in lists. So far, the NZIA misses the opportunity to fully identify the industrial value chains and to promote manufacturing technologies. It further fails to benefit from the technology neutral approach. Picking "winners" is not a viable market-based economic policy that is conducive to EU competitiveness in general.

## Strategic projects

Manufacturing projects regarding one of the net-zero technologies or decarbonisation projects that fulfill certain criteria can be recognized as strategic by the Member States. Based on a request by the project promoter, the project needs to meet at least one of the criteria related to i) its contribution to industrial resilience; ii) its positive impact on the EU net-zero supply chain and on building a workforce required for net-zero technologies or contributing to the SMEs' competitiveness; iii) its contribution to realize the EU's climate and energy targets by manufacturing net-zero technologies with more environmentally friendly production processes. Different criteria apply for CO<sub>2</sub> storage projects to be recognized as strategic.

## Net-zero privileges

The key benefit of the NZIA is streamlining and accelerating the permitting processes for manufacturing projects. One or more single points of contact are supposed to be established to become points of contact between the project promoter and the relevant administrative authorities. They will be responsible for facilitating and coordinating the permit-granting processes. All projects enjoy faster permitting timelines depending on their size, while the strategic ones enjoy shorter timelines, e.g., 12 months for a net-zero project of manufacturing capacity of less than 1 GW, and 9 months for the same size of the project recognized as strategic. Possible extensions of these timelines between 3-6 months are foreseen in case of complexities, health, or safety reasons. Among the additional privileges that the strategic projects enjoy is having priority status for all relevant administrative processes, including environmental assessments and dispute resolution procedures. The VDMA welcomes the streamlining and acceleration of permitting processes – however, this must not be limited to a few selected projects but needs to be achieved across the board.

## Mandatory non-price criteria for public procurement and auctions

For the first time, the NZIA introduces mandatory non-price criteria for public procurement and auctions. These refer to environmental sustainability, social considerations, cybersecurity, responsible business conduct, innovation, resilience, and other factors, and will need to be considered together with the price factor when assessing potential tenders. Their goal is to boost EU manufacturing and to avoid dependencies at the same time. Their application will be specified by further secondary legislation in 2025. From the VDMA perspective, a horizontal approach and simple application of non-price criteria to minimize their bureaucratic burden are pivotal in the secondary legislation.

## Net-zero acceleration valleys

The design of net-zero acceleration valleys is another possibility for Member States within the NZIA scope. These are geographically defined areas to accelerate net-zero industrial activities, including clusters of net-zero and strategic projects and a further streamlining of administrative procedures. The national decision for their design needs to be accompanied by a plan with national measures involving economic and administrative support with the goal of increasing the attractiveness of the manufacturing location. The VDMA favors a flexible geographical definition of net-zero valleys based on preferable conditions (e.g., weather conditions, infrastructure, permit facilitation, workforce, etc.) that can encourage net-zero industrial activities. Selecting regions with “traditional” industrial value creation could be the first step to support the manufacturing of strategic projects.

## Possibilities for EU and national funding

The NZIA does not include new rules on financial support for net-zero manufacturing projects. The updated state aid rules under the Temporary Crisis and Transition Framework (TCTF) facilitate state aid for investments in net-zero in production facilities until the end of 2025. Moreover, several EU funding programmes, such as the Recovery and Resilience Facility within Next Generation EU, InvestEU, Cohesion Policy programmes, the Innovation Fund as well as the newly adopted Strategic Technologies for Europe Platform (STEP) are already available to finance net-zero projects.

## In need of an overarching competitiveness initiative

Although the NZIA comprises expedient measures, it is still part of a vertical industrial policy approach that entails the risk of inefficient micro-management. It fails to fully leverage synergies across the whole industrial value network, and especially the enabling role of mechanical and plant engineering within many net-zero value chains. Instead, targeting the competitiveness of the EU industry in general is necessary. Simplifying and harmonizing regulation, cutting red tape, and accelerating permitting procedures must be realized across the board. These are some of the priorities that the new European Commission should urgently tackle in the next legislative term.

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