

Creating a clean industry in Central and Eastern Europe: ten recommendations for EU and national governments

Central and Eastern European (CEE) countries face numerous challenges in decarbonising their economies. Of these, the transformation of heavy industry is one of the most pressing: despite a progressive decline in the economic contribution of industry post-1990, CEE economies still rely more on their heavy industries than the EU average; these heavy industries remain more carbon-intensive than in other parts of the EU; and progress in decarbonising them remains slow due to inadequate climate policy frameworks and limited institutional capacity and national public funding, among others.

The opportunities for growing a clean industry in the CEE region are significant. Ample renewable energy resources, carbon dioxide storage potential, and available manufacturing capacities place the region in a good position to secure Europe's supply of decarbonised industrial products, including primary and secondary steel, cement, and chemicals. Transforming heavy industry and kickstarting new value chains can both propel regional development, ensure industrial self-sufficiency, and make an important contribution to the EU's emissions reduction and just transition goals. Such a transformation must always be driven by cost-effective emissions reductions and focus on developing clean industry in the areas with highest potential of having a competitive edge in a low-carbon future.

National and EU leaders must be proactive in developing clean industrial value chains in CEE. Countries in this region are challenged by narrow fiscal spaces, gaps in institutional capacity, aging industrial facilities and potential social backlash to stringent climate policies. To overcome these challenges and leverage the potential of the CEE region, the EU's new industrial policy must promote fair and cohesive support instruments based on a dual track of decarbonisation and development, including comprehensive workforce reskilling. A "two-speed Europe", in which industrial (re)development is concentrated in Western countries simply due to higher economic power, must be avoided.

The EU can both use its existing support instruments and develop new ones to ensure this:

1. The upcoming **Industrial Decarbonisation Accelerator Act** must provide fair access to opportunities for industrial transformation across the EU and encourage a place-based approach to clean industrial development based on future competitive edge and wider potential benefits, including cohesion, rather than current economic resources and innovation track record.
2. **Regional development funding** must be maintained and linked to industrial decarbonisation, for example by introducing Green Public Procurement (GPP) criteria in Cohesion Funding, expanding the sectoral scope of territorial Just Transition planning to include deep industrial decarbonisation, and expanding the Connecting Europe Facility to deploy more infrastructure for transnational industrial decarbonisation projects.
3. The **EU Public Procurement Directive** must be revised to introduce lifecycle emissions and circularity criteria in public procurement, with harmonised implementation across the EU and alignment with other lead market creation policies. These must be balanced well against price criteria to offer effective protection of CEE industries against carbon leakage (particularly in EU border countries), reinforcing the safeguarding role of a (yet untested) Carbon Border Adjustment Mechanism.
4. The **Innovation Fund** must be redesigned to include early deployment of cost-effective industrial decarbonisation measures which are first-of-a-kind on a national level, ensuring coverage of countries with low innovation potential but significant deployment potential.
5. Strengthen national planning for industrial decarbonisation, leveraging the future revision of the **EU Governance Regulation** to ensure that Member States anticipate their infrastructure, energy,

resource and market creation needs to enable a successful transformation and place industrial decarbonisation in their economy-wide transition to climate neutrality.

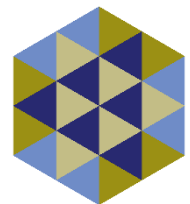
National governments in the CEE region must align with EU priorities and accelerate their industrial transformations through proactive policy developments:

1. Align national **climate, industrial, and development policies** to increase the efficiency of industrial transformation and deliver socially just climate and industrial policies, based on cross-party agreements to ensure political continuity. Seek to **eliminate distortionary subsidy schemes** which undermine incentives for improving industrial resource efficiency and emissions reductions.
2. Earmark **EU ETS revenues** for climate action, including clear and proportionate support for cost-effective industrial transformation through a mix of funding instruments, including direct grants, fiscal facilities and blended finance.
3. Provide long-term certainty for investors by **guaranteeing carbon prices or input prices**, for example through Carbon Contracts for Difference schemes to support operational costs, and creating lead markets for low-carbon steel and cement including through national Green Public Procurement policies and incentives for private uptake aligned with climate targets.
4. Conduct **integrated infrastructure planning** and **engage in regional cooperation** to ensure that energy and transport infrastructure (including for electricity transmission and the transport of hydrogen and carbon dioxide) are deployed cost-effectively to support transformation across the region. Investigate the potential for infrastructure re-use, ensuring that it does not prolong the lifetime of fossil fuel assets.
5. Increase **research and innovation spending**, including leveraging the potential of digitalisation, to secure a competitive edge in emerging markets for net-zero technologies, which can both meet domestic demand and position the region as a key component of green industrial supply chains in Europe. Further leverage EU funding instruments, including InvestEU, to deploy low-carbon industrial processes and technologies at scale.

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