

## Weekly Summary

# Economics of Climate Change

February 28, 2025

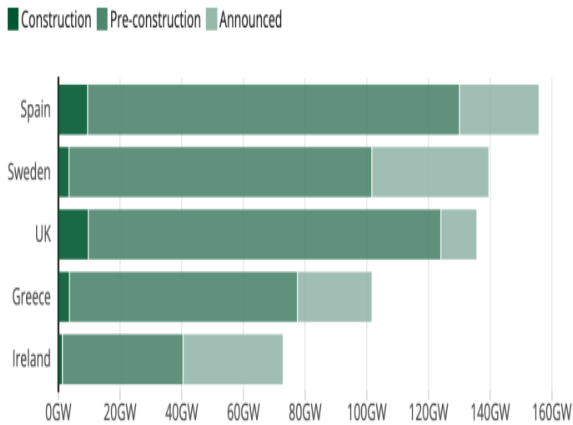
## Clean Industrial Deal: A Potential Turning Point for Europe's Decarbonization and Competitiveness

With the Clean Industrial Deal, Europe may reach a turning point driving both decarbonization and industrial competitiveness. The effective success of this initiative will depend on its deployment, avoiding coordination issues from fragmented governance, and aligning incentives to encourage essential private financing.

### Takeaways

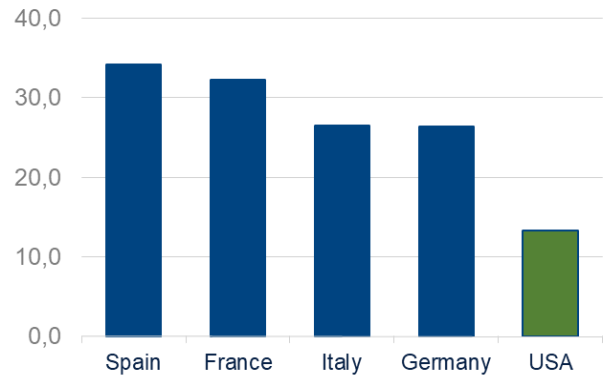
- **The Clean Industrial Deal (CID) and the Affordable Energy Action Plan represent key steps toward enhancing Europe's industrial competitiveness while ensuring decarbonization.** The CID introduces regulatory measures such as the Industrial Decarbonisation Accelerator Act, the Circular Economy Act, and the Clean Industrial Deal State Aid Framework, aimed at streamlining permitting, promoting sustainable practices, and mobilizing both public and private investment. It also establishes sector-specific strategies for industries like steel, chemicals, and transport, securing raw material access and fostering innovation.
- **The Affordable Energy Action Plan complements the CID** by tackling high energy costs through measures like grid modernization, streamlined permitting, and market reforms to decouple electricity prices from volatile gas markets. It also promotes cross-border energy integration and a more coordinated Energy Union to enhance resilience and lower costs.
- **However, significant challenges remain.** **Figure 1** highlights permitting bottlenecks as a major constraint on infrastructure deployment, potentially slowing down investment in renewables and industrial decarbonization if it is not solved. Additionally, **Figure 2** illustrates the deep integration of European industry, emphasizing the necessity of EU-wide coordination to prevent fragmented national policies from undermining efficiency.
- **Moreover, reliance on public funding and private investment coordination poses financial risks,** while disparities in national taxation and regulatory frameworks could hinder effective implementation. Addressing these governance and investment barriers will be critical to ensuring the success of these initiatives.

Figure 1. **UTILITY-SCALE SOLAR & WIND CAPACITY IN EUROPEAN COUNTRIES. GW**



Source: Spain | Reaping the Benefits of Renewable Energy in the Spanish Economy | BBVA Research

Figure 2. **FOREIGN VALUE ADDED IN GROSS INDUSTRIAL EXPORTS (%). 2020**



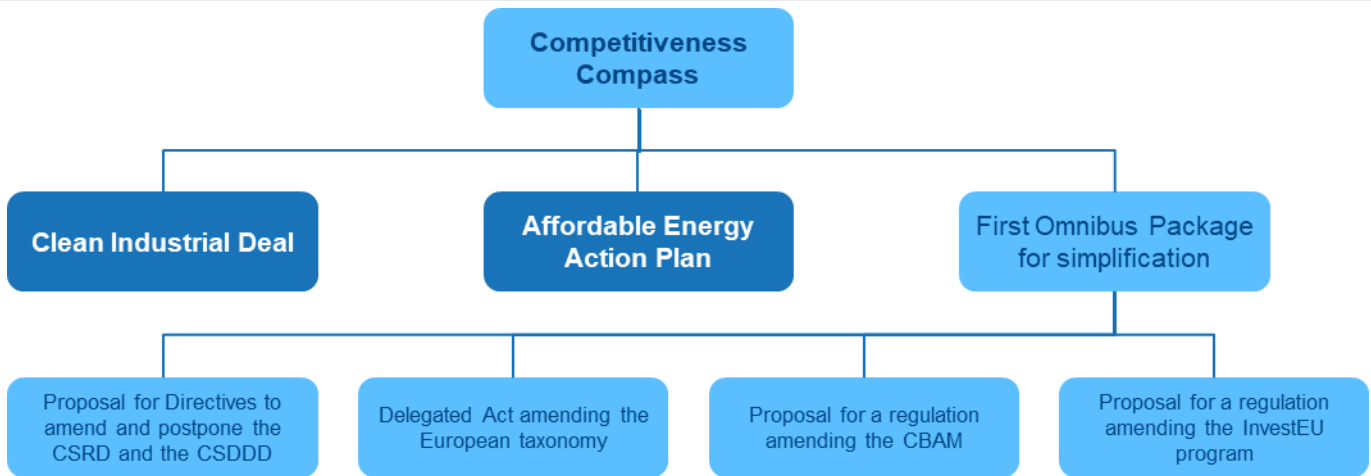
Source: BBVA Research with OECD Data.

## Details

**The European industrial sector faces huge challenges, including high energy costs and intense global competition to be tackled with the [Competitiveness Compact](#) initiative, which is gradually being detailed.** Europe faces high external vulnerability due to its dependence on natural gas supplies, which places it at geopolitical risk. In addition, electricity prices remain very high, especially compared to the US. To turn decarbonization into a growth driver, the European Commission adopted the [Competitiveness Compass](#), based on the [Draghi Report](#). This key tool outlines policies for three crucial transformations to increase long-term growth: innovation, decarbonization, and economic security. By prioritizing these, the EU aims to lead in developing and manufacturing future clean technologies. This Wednesday 26th February, three key actions were added to the compass (Figure 3): the [Clean Industrial Deal](#), the [Affordable Energy Action Plan](#), and the [First Omnibus Package](#).<sup>1</sup> In this note, we focus on the first two.

1: It presents several proposals and acts in different sectors, such as simplification of the European taxonomy or the regulation of the CBAM. For instance, it will relieve 80% of companies from sustainability reporting, since reducing the excessive regulatory burden is one of the goals of the Deal.

Figure 3. KEY ACTIONS OF THE COMPETITIVENESS COMPASS PUBLISHED OR ANNOUNCED THIS WEEK BY THE EUROPEAN COMMISSION<sup>2</sup>



Source: BBVA Research.

The **Clean Industrial Deal (CID)** is an initiative that aims to reduce energy costs, create high-quality jobs and establish favorable conditions for European industrial prosperity. The Deal outlines six key levers to achieve its goals. It aims to make **energy more affordable** to enhance industrial competitiveness, while also **facilitating supply and stimulating demand for clean products**, providing market certainty for investment. **Mobilizing financial resources** is crucial to support decarbonization and leverage private investment. **Ensuring access to raw materials** within the EU and **embedding circularity** will reduce dependency on unreliable suppliers and enhance sustainability. The Deal also focuses on **forging global partnerships** to secure market access and protect industries from unfair competition. Lastly, it emphasizes developing a **skilled workforce** to support a decarbonized industry, creating high-quality jobs and fostering social equity.

The CID introduces key legislative and regulatory measures to support European industries:

- **Industrial Decarbonisation Accelerator Act.** Streamlines permitting for industrial energy access and decarbonisation (e.g., modernising steel production). Establishes a low-carbon product label for steel and later cement, enabling companies to benefit from the green premium while informing consumers about carbon intensity. Introduces sustainability and resilience criteria to boost clean European supply for energy-intensive sectors.
- **Revision of the Public Procurement Directive.** Allows sustainability, resilience, and European preference criteria in public procurement for strategic sectors, extending incentives to private procurement through life cycle-based CO<sub>2</sub> performance standards.
- **Circular Economy Act.** Creates a Single Market for waste and reusable materials, reducing reliance on scarce resources, lowering costs, cutting waste and emissions, and fostering a more competitive and sustainable industrial model.

<sup>2</sup>: This figure shows only some of the documents that have been announced this week and are of interest to this study. The Competitiveness Compass is a much broader package.

- **Clean Industrial Deal State Aid Framework.** Accelerates approval of State aid for renewable energy deployment, industrial decarbonisation, and clean tech manufacturing capacity, encouraging its investment.
- **Delegated Act on Low-Carbon Hydrogen.** Defines conditions for low-carbon hydrogen production, completing the EU's regulatory framework and ensuring investment certainty for industry.
- **Expansion of the Carbon Border Adjustment Mechanism (CBAM).** Undergoes review for possible extension to additional ETS sectors and downstream products, addressing exporter challenges. Initial steps include CBAM simplification.

**The CID would mobilize over €100 billion for EU-based clean manufacturing, including an extra €1 billion in guarantees under the current Multiannual Financial Framework (MFF).** In the next EU budget, the Competitiveness Fund will create investment capacity for high-value European projects, covering the entire investment cycle—from research and innovation to industrial deployment, clean tech, and decarbonization. The **Industrial Decarbonisation Bank**, proposed by the Commission, aims to secure €100 billion in funding, utilizing resources from the Innovation Fund, ETS revenues, and the InvestEU revision. In 2025, before the ETS Directive revision in 2026, the Commission will launch a €1 billion pilot auction to support the decarbonization and electrification of key industrial sectors, using Innovation Fund resources and an auctions-as-a-service model. Public funding will also include national tax incentives, with the Commission providing common guidelines. Additionally, a €600 million Horizon Europe call under the 2026-2027 work program will support deployment-ready projects.

**But public funding alone will not suffice, private investment will be essential.** Public funds alone will not be enough. To boost private investment, the Commission proposes a **European Savings and Investments Union**, integrating banking and capital markets to channel Europe's private savings into innovation and clean/digital transitions.

**CID also focuses on energy-intensive industries, such as steel, metals, and chemicals, which require immediate support to transition to clean energy (Box 1).** These industries face major challenges, including decarbonization, high energy costs, unfair global competition, and complex regulations. Another key focus is **clean-tech**, essential for industrial transformation, competitiveness, and decarbonization, and a **great opportunity for the Spanish industry (Box 2)**. The Deal also highlights the **circular economy**, which promotes waste reduction, recycling, and sustainable production to optimize resources and reduce reliance on external raw materials.

## Box 1. Sector-Specific Action Plans in the Clean Industrial Deal

The Clean Industrial Deal acknowledges sector-specific challenges in transitioning to a competitive, decarbonized economy. The European Commission proposes tailored action plans to drive investment, innovation, and policy support while maintaining competitiveness and climate alignment.

1. **Automotive Industry: Driving Innovation in Clean Mobility.** Set for adoption on March 5, 2025, the Industrial Action Plan for the Automotive Sector supports Europe's shift to sustainable, digital mobility. It will prioritize electrification, battery production, low-emission vehicles, and expanding charging infrastructure. The plan would also include funding for next-gen mobility technologies like autonomous driving and smart systems.
2. **Steel and Metals: Decarbonizing an Essential Industry.** Launching on March 4, 2025, the Steel and Metals Action Plan is key to the Clean Industrial Deal. It promotes green steel via hydrogen, carbon capture, and electrification while strengthening trade defenses and expanding CBAM. Investment incentives will also support circular economy initiatives.
3. **Chemicals: Strengthening a Critical Industry for Clean Technologies.** Set for adoption in late 2025, the Chemicals Industry Package supports decarbonizing chemical production while maintaining global competitiveness. It highlights the sector's role in key clean technologies like batteries, wind turbines, and hydrogen.
4. **Sustainable Transport: Investing in Low-Carbon Mobility.** The Sustainable Transport Investment Plan targets aviation, maritime, and rail, promoting low-carbon fuels like biofuels, synthetics, and green hydrogen. It expands funding for sustainable aviation fuels to cut airline emissions.
5. **Bioeconomy Strategy: Scaling Up Sustainable Materials.** The Bioeconomy Strategy will promote bio-based materials in construction, packaging, and textiles, reducing reliance on fossil fuels and lowering environmental impact.
6. **Blue Economy: Expanding Clean Technologies for the Ocean.** The European Ocean Pact will drive innovation in offshore renewables, sustainable fisheries, and maritime circular economy, prioritizing wind, wave, tidal energy, and ocean-based carbon capture.

## Box 2. Spanish Strategies for Cleantech<sup>3 4</sup>

**The Spanish industry shares many challenges with Europe. However, with its strategic location and abundant renewable resources, Spain is poised to play a leading role in Europe's cleantech revolution.** The country already accounts for 20% of announced green hydrogen projects in the EU, reinforcing its position as a key innovation hub. However, scaling clean energy systems and decarbonizing heavy industry remains a significant challenge.

Achieving this will require decisive action across several key areas: implementing **targeted policies and investment strategies** that accelerate industrial transformation while ensuring economic competitiveness; creating strong demand signals through **clear and predictable industrial climate policies**; **strengthening public-private partnerships** to foster collaboration between governments, corporations, financial institutions, and startups; and **enhancing financial viability** by simplifying bureaucratic processes, expediting permitting, and deploying innovative financing mechanisms to bridge funding gaps for early-stage cleantech projects. Moreover, **leveraging funding from the EU Emissions Trading System (ETS)** will be essential, with revenues redirected toward scaling domestic cleantech manufacturing and industrial decarbonization.

The Clean Industrial Deal is a key element in achieving these objectives. With the right financial structures, regulatory framework and collaborative ecosystems, all implemented with a competitive approach at the European level, Spain can lead the sustainable industrial transformation, consolidating its leadership in cleantech.

The **Action Plan for Affordable Energy**, as a key component of the CID, aims to ensure a more resilient, cost-effective, and decarbonized energy system. One of the most critical measures is the completion of the **Energy Union**, which seeks to enhance market integration, governance, and investment coordination across Member States. By launching an *Energy Union Task Force*, revising governance regulations, and promoting an electrification roadmap, the EU aims to prevent cost increases of up to €103 billion by 2040, while ensuring more efficient investments and faster electrification.

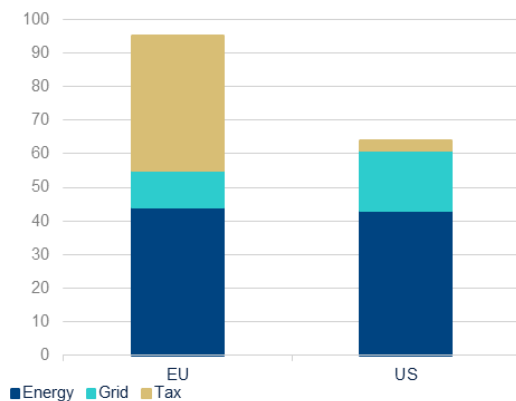
- The Plan also emphasizes **modernizing and expanding electricity grids**. The proposed *European Grid Package* will facilitate cross-border energy exchange, streamline permitting, and encourage investment in smart grids. These measures will enhance grid reliability, reduce congestion costs, and enable better integration of renewable energy sources.
- **Reducing permitting times for clean energy and grid infrastructure projects is another priority**. Lengthy approval processes currently slow down the expansion of renewables and grid interconnections. The plan calls for digitalizing permitting procedures, increasing administrative resources, and introducing one-stop-shop mechanisms to accelerate approvals. It is estimated that streamlined permitting can reduce project timelines to under six months for simpler projects and significantly improve infrastructure rollout.
- A major cost-reduction strategy is to **decouple electricity bills from volatile gas prices** by boosting long-term contracts like Power Purchase Agreements (PPAs). The EU, alongside the European Investment Bank (EIB), will introduce de-risking tools to facilitate access to stable, long-term clean electricity contracts, reducing exposure to price fluctuations.

3: Spain is leveraging industrial clusters to lead Europe's energy transition | World Economic Forum.

4: El Clean Industrial Deal: la gran oportunidad para la industria española.

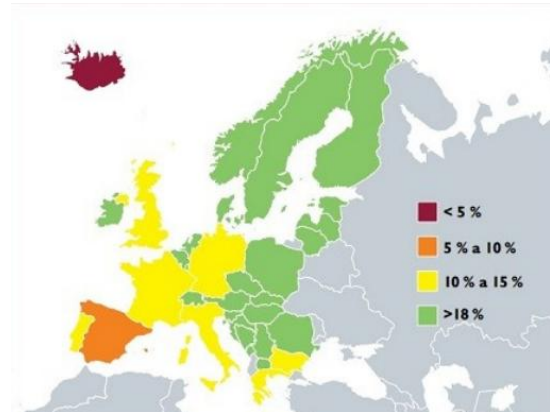
- Further **network charge reforms** will lower energy system costs by incentivizing demand flexibility and ensuring cost-efficient grid expansion. Additionally, **reducing taxation and levies** on electricity—while shifting energy-related costs to general taxation—aims to lower household and industrial energy bills, making electricity more competitive against fossil fuels.
- **Flexibility and storage solutions are also prioritized to stabilize energy prices.** The plan calls for clearer State aid rules and new regulatory frameworks to promote energy storage, demand-side response, and industrial flexibility commitments. Improved flexibility could lead to a 40% reduction in wholesale electricity prices and prevent unnecessary peak generation costs.
- Recognizing the role of **gas markets in energy pricing**, the EU has launched a *Gas Market Task Force* to oversee pricing mechanisms and prevent market manipulation. Additionally, the EU seeks to **leverage its purchasing power** by negotiating better deals with global LNG suppliers through collective purchasing and long-term agreements. This measure aims to shield EU buyers from global price volatility.
- On the consumer side, **increasing competition in retail electricity markets** is set to help consumers switch to cheaper suppliers and take advantage of community energy schemes. Strengthening energy efficiency markets and access to financing will further drive down energy consumption, with the goal of doubling energy savings service investments and ensuring compliance with high-efficiency standards for products.
- Lastly, the EU seeks to **prepare for future energy crises** by introducing more dynamic demand-side response incentives, improving gas storage coordination, and ensuring cross-border capacity is available during peak demand periods. Strengthened security-of-supply regulations will be introduced to mitigate potential price spikes during disruptions.

Figure 4. **BREAKDOWN OF ELECTRICITY PRICES IN INDUSTRY (€/MWH)**



Source: Un “Clean Industrial Deal” eficaz y eficiente para Europa | EY - España

Figure 5. **ELECTRICITY INTERCONNECTIONS. 2020 (IMPORT CAPACITY / NET GENERATION CAPACITY)**



Source: REE based on ENTSO-E.

**Caveats and Challenges.** The **lack of a fully harmonized governance framework** at the European level may hinder the effectiveness of some initiatives. Energy policies and taxation remain under national control, which could lead to uneven implementation across Member States. Similarly, **cross-border grid expansion projects** depend on national investment decisions, making their execution uncertain. **The plan’s reliance on public funding and private investment coordination poses another risk.** Significant capital is required to modernize grids, develop storage solutions, and improve energy infrastructure. If financing mechanisms are not efficiently designed, these investments might not materialize at the necessary scale.

Additionally, **some measures may have unintended consequences**. Lowering energy taxation and shifting levies to general taxation could create fiscal imbalances in Member States with constrained budgets. Market-based incentives for flexibility and storage require **strong regulatory oversight** to avoid distortions, such as excessive subsidies or competitive disadvantages for smaller players.

## Highlights of the Week

- **Global | The climate is warming and sea levels rising way faster than governments are acting.** Only six of the countries the [Climate Action Tracker analyses](#) have submitted their new 2035 climate targets in time for the Paris Agreement's 10 February 2025 deadline, and only one — [the UK](#) — is proposing actions at home that are 1.5°C-aligned.
- **Global | A New Perspective on Temperature Shocks.** This study revisits the empirical relationship between temperature fluctuations and real growth, with a novel focus on differentiating between transitory versus permanent temperature shifts.
- **Global | Rising component prices and supply chain pressures are hindering the development of transmission grid infrastructure - News - IEA.** Global grid expansion is struggling to keep pace with surging demand for electricity as procurement lead times and costs for essential parts have nearly doubled since 2021.
- **Global | Revealed: More than half of nations fail to protect 30% of land and sea in UN nature plans - Carbon Brief.** Countries failing to commit to “30 by 30” in UN plans represent just over one-third of Earth’s land surface.
- **Europe | Europeans still want climate action, but don't trust governments to deliver.** Despite recent election results, underlying concern about climate change has not changed significantly.
- **UK | CCC: Reducing emissions 87% by 2040 would help ‘cut household costs by £1,400’.** [Carbon Brief](#). The UK should cut its emissions to 87% below 1990 levels by 2040 under its seventh five-yearly “carbon budget”, according to official advice from the Climate Change Committee (CCC).



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## **ENQUIRIES TO:**

BBVA Research: Azul Street, 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).  
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 25  
[www.bbvarresearch.com](http://www.bbvarresearch.com)