E3G

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MAKING CLEAN TECHNOLOGY VALUE CHAINS WORK FOR EU ECONOMIC CONVERGENCE

A CASE STUDY ON PORTUGAL – SUMMARY FOR POLICY MAKERS

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Portugal has great opportunities to develop its lithium and green hydrogen value chains and benefit from the green industrial investment boom. Its case illustrates how less wealthy EU countries can make better use of their comparative advantages, and contribute to the EU's economic convergence. The EU should also review its industrial policy framework to avoid aggravating existing economic and industrial imbalances.

The EU should review its industrial policy framework to:

> Ensure a level playing field in the financing framework by deepening the EU Green Deal Industrial Plan funding pillar.

> Establish a predictable framework for cross-EU green industrial value chain development to ensure investor certainty.

> Introduce a requirement for member states to prepare integrated cleantech value chain development strategies in their NECPs.

> Ensure that the EU hydrogen financing framework (e.g. European Hydrogen Bank) incentivises priority, high value-added uses of hydrogen.

> Include local economic value creation when assessing impacts on communities of raw material projects considered for recognition as a Strategic Project in the Critical Raw Materials Act.

The existing framework does not effectively incentivise clean technology value chain development across all member states. By operating largely through domestic financial contributions, it implicitly favours countries with larger fiscal resources.

This reinforces existing path dependencies and deepens industrial power imbalances, making cohesion countries ever more dependent on EU-level transfers for public investment.

Portugal should consider the following options to realise the potential of its clean economy value chains:

> Adopt an integrated value chain approach to industrial policy. This could be included in a green industrial strategy presented earlier than foreseen in the Portuguese Climate Law (February 2024), reflecting the new context posed by the GDIP and IRA.

> Set predictable local demand targets to develop new clean technology value chains. As an example, the forthcoming offshore wind auction could include green steel requirements.

> Improve the current lithium investment framework to ensure it benefits local communities by developing battery value chain production capacity at regional level while maintaining strong environmental safeguards.

> Maximise the use of available EU funds to support the development of new clean technology value chains.

> Put the development of clean technology value chains on the agenda of the yearly Iberian summits.

> Join international partnerships on international decarbonisation.

These national-level recommendations address domestic barriers that may prevent Portugal from fully capitalising on the opportunities presented by clean technology value chains. Barriers include a lack of strategic direction in Portugal's industrial policy framework; difficulties in scaling up innovation; a lack of dedicated governance structures for clean technology value chain development; a shortage of national champions to drive green industry creation; and the unclear socio-economic benefits for communities close to potential lithium mining sites.

This case study shows how a combination of domestic and EU-level barriers can prevent a country that is reliant on cohesion funding from reaping the benefits of the global boom in clean technology value chain investment. The approach to these obstacles can either exacerbate or improve existing economic and industrial imbalances within the EU. The EU can leverage its industrial policy to also help achieve cohesion policy goals, supporting less well-off countries in building on their comparative advantages to develop new high value-added activities.

About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

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