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What European business makes of the green-subsidy race

A lesson from America's Inflation Reduction Act is that size isn't everything

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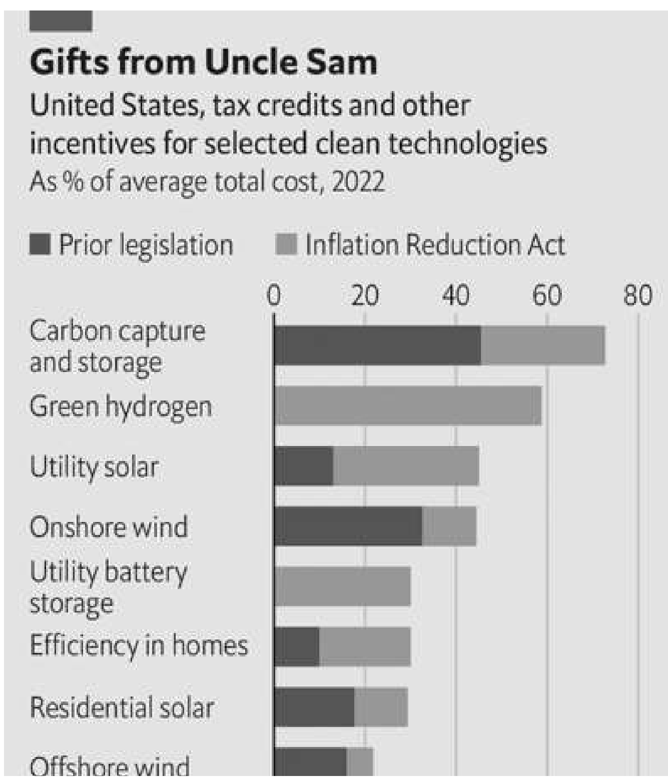
LAST SUMMER European leaders began hearing a huge sucking sound. The source of the din? The Inflation Reduction Act (IRA), a 725-page doorstopper of legislation passed in August to speed up American decarbonisation. Europe's stop this from happening, some EU politicians argued, the bloc would have at the very least to match the IRA's sums.

So far the noise has turned out to be mostly in the politicians' heads. Worries about a green exodus, bordering on panic in some quarters, have subsided. When the continent's heads of government gathered for a summit last week in Brussels, they did not shower billions of euros more on the EU's greening efforts—which are already, it turns out, comparable to the IRA in their generosity. Nor did they (for the time being) further water down rules against state aid to favoured businesses, which would have given freer rein to member states keen to splurge. Instead, they focused on making the system for doling out this money more efficient.

This is music to the ears of Europa SA. In the eyes of its European fans, the beauty of the IRA is less its size than its simplicity. Rules are the same all over America. Getting tax credits, grants or soft loans will be straightforward provided a firm meets certain criteria, such as investing in one of the targeted sectors. The law sets aside sums for specific technologies that can create markets, such as solar energy, carbon capture and storage and "green" hydrogen, made from renewable power (see chart). Producers of such hydrogen, for example, can get tax credits of up to $3 per kilogram of the gas.



The Economist

Replicating this set-up exactly would be unthinkable in Europe. The EU may see itself as an ever-closer union, but taxes are still a national affair, which rules out continent-wide tax incentives. If member states want to institute their own credits, or other forms of subsidies, they typically need the approval of the European Commission in Brussels, whose job it is to ensure a level playing-field in the EU's single market. To the resulting cacophony of national schemes, the EU has in recent years added a few bloc-wide grant programmes, such as InvestEU and Innovation Fund, to support clean tech.

The upshot is ear-splitting, particularly for smaller green-tech firms in need of funds to scale up their projects, says Craig Douglas of World Fund, a venture-capital firm, who has long experience in dealing with the EU's subsidy bureaucracy. To have a chance at tapping one of the many pots, startups often have to hire pricey consultancies to help them write grant proposals. "We would need at least four people full-time to figure this out," explains Vaitea Cowan, co-founder of Enapter, a maker of electrolysers, machines that produce hydrogen.

Once an application is filed, it often takes months, if not years, before a decision is made. In the case of Plastic Energy, which recycles plastic waste, it once took so long that "we had to file again because the delay made us miss a deadline", reports Carlos Monreal, the firm's chief executive. And decisions tend to come without explanation. "It's a black box. There should be a dialogue," says Henrik Henriksson, boss of H2 Green Steel, which is erecting a steel mill in northern Sweden that is powered by green hydrogen. The EU's green subsidies are also often poorly targeted. Jules Besnainou of Cleantech for Europe, a lobby group, points out that most of the European money does not go to the continent's startups, which tend to be more innovative, but to big established firms, which do not always need government support.

The commission's draft "Green Deal Industrial Plan", unveiled on February 1st, tries to deal with these shortcomings. The plan is meant to simplify the EU programmes and streamline the approval of national green-finance tools in Brussels. It proposes an "administratively light" auction, the winners of which will receive a premium, based on their bids, for each kilogram of renewable hydrogen produced over ten years. The scheme will offer incentives to the tune of €800m ($860m). The

IRA has clearly shocked the EU into thinking harder about its green subsidies, says Jeromin Zettelmeyer, who heads Bruegel, a think-tank in Brussels.

That may be so. Still, those who have read the eight pages dedicated to "speeding up access to finance", which mention no fewer than a dozen different acronym-rich programmes, may be excused for not holding their breath. Claudio Spadacini, CEO of Energy Dome, an Italian firm which uses liquid carbon dioxide to store energy, approves of the EU's moves but still hopes to take advantage of the IRA. Ms Cowan of Enapter, whose firm has just built a factory in Germany, is getting lots of calls from American state governments since the IRA was passed. "They are rolling out the red carpet," she says. Whoosh. ■

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