To strengthen Europe’s competitiveness, the Net Zero Industry Act (NZIA) should promote startups’ solutions

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The Net Zero Industry Act (NZIA) is part of the European answer to the US Inflation Reduction Act (IRA), the ambitious plan attracting numerous industrial European startups to the United States. As the largest startup association in Europe, representing more than 2000 members of an ecosystem which provides digital and green solutions for the twin transition, France Digitale believes this regulation is an important shift in the European Union’s approach to net-zero technologies and supports its aim to help the European ecosystem in achieving the Green Deal’s objectives.

However, compared to the US’ IRA, the NZIA lacks the main measure that would actively support European startups: funding. To address this issue while also avoiding anticompetitive effects on smaller Member States, we call on EU policymakers to swiftly move forward with the negotiations on the EU sovereignty fund.

Furthermore, we believe the NZIA does not fully account for the challenges faced by European startups developing net-zero technologies. Indeed, no impact assessment nor SME test was carried out ahead of the proposals’ publication, resulting in measures adapted for established players rather than newer companies.

For this reason, we call on European institutions to:

- **Extend the list of net-zero technologies** across the whole value-chain
- **Adapt the permit-granting process to startups and SMEs** with accommodating measures and dedicated contact persons
- **Improve startups’ access to public procurement** through a legislative European Small Business Act
- **Include startups' needs in training, reskilling and upskilling programs** and create a “young innovative company” fastrack for foreign skilled workers
- **Create sandboxes that are useful and relevant** for innovative companies

As the EU’s most innovative actors and solution providers, startups should have privileged access to the NZIA to ensure a transition based on European innovations to reinforce our strategic autonomy.

1. **Scope: Extend the list of net-zero technologies**

   Compared to the NZIA, the IRA has a more flexible scope. The American plan provides subventions and support measures for the entire value chain, while the NZIA net-zero technologies’ definition is limited to the “final products, specific components and specific machinery primarily used for the production of those products”. We believe that many startups would benefit from the extension of the scope, as they are producing technological solutions across the value chains that are greening European industries.
Additionally, some sectors should be considered as net-zero technologies as they lower the environmental impact of the broader industrial ecosystem, including heat recovery, digital solutions for energy efficiency, buildings’ renovation or circular economy. These sectors are important providers of solutions to decarbonise European industries. If left aside, they could lose in competitiveness vis-à-vis foreign actors.

2. Permit-granting: Adapt processes to startups and SMEs

We strongly support the proposal of the Commission to fast track the permit-granting process of net-zero strategic projects and net-zero technologies, as well as the priority given to projects that are necessary to achieve the twin transition. We particularly welcome article 14 aiming at crowding-in more private investments in net-zero strategic projects.

However, many startups in the field are struggling to compete for the available lands and putting additional criteria on the reporting of their environmental impact could be more complicated to them than for established groups, therefore putting smaller competitors at a disadvantage. We are thus asking for accommodating measures for SMEs and startups providing manufacturing solutions, such as a contact person at the national one-stop shops for SMEs and startups, within article 4 or article 14(2).

Furthermore, we ask that SMEs and start-ups associations are specifically involved in the Net-Zero Europe Platform among the relevant industrial alliances.

3. Access to market: Improve startups’ access to public procurement

Greening the requirements to access public procurement and private investment is a good step forward to achieve the ambitions of the European Union’s Green Deal. Similarly, we believe that incentivising consumers to buy net-zero strategies could be beneficial for the European startup ecosystem. Yet startups are still facing difficulties when it comes to accessing public procurement, which is crucially needed to ensure the sustainable growth of their business and advance the green transition. With the IRA altering the level-playing field, the crucial role of public procurement shouldn’t be understated.

While public procurement offers significant opportunities, its potential is largely untapped today due to risk-averse buyers and a lack of promotion and awareness about innovative solutions. 90% of French startups point to unadapted public tenders’ criterias, excessively long and complicated procedure, extended payment periods and a lack of information as barriers to their participation in public tenders. These hurdles result in 55% of startups not drawing any revenues from public procurement. We therefore believe the NZIA should be more ambitious in giving access to public procurement to startups. This can be done through several actions. First, by actively promoting innovative solutions in article 19(2) and article 20. Second, by establishing a legislative European Small Business Act requiring public administration to rely on European SMEs and startups for a sizable share of their public procurement. Third, by increasing the uptake of toolkits for public buyers such as the recent publication by DG Grow³ on this subject.

³PUBLIC PROCUREMENT OF INNOVATION: HOW DO START-UPS FIT IN - A brochure for public buyers, European Commission (2023)
Lastly, the Net-Zero Europe Platform, which is responsible for helping stakeholders understand the measures enacted by Member States (article 22(3)) should be clearer when it comes to its obligations. For instance, startups would benefit from more specific delays in obtaining Commission clearance regarding state aid. The inclusion in the Platform’s objective of a reflection on a European preference within EU public procurement should also be envisaged, in light of the IRA’s provisions on local content.

4. Talents: Include startups needs in training, reskilling and upskilling programs

Developing skills for European workers is essential to ensure that the twin transition is shaped in Europe and not elsewhere. It is a crucial point for France Digitale’s members: 60% of French startups indicate that recruiting talent is their number one challenge, especially when it comes to engineering and IT skills, where startups are competing with established groups and foreign firms.

For this reason, the training, reskilling and upskilling of talents should be done in collaboration with innovative startups. Smaller firms should be part of the thought process behind the European Net Zero Industry Academies, for instance, when it comes to the conditions to access learning programmes in article 23(1b). Startups’ needs should also be taken into account when it comes to “monitoring and forecasting the demand and supply of workforce with the skill sets needed in net-zero technologies” (article 25(1)) for the Net Euro Europe Platform, and they should be among the stakeholders that will be mobilised for the roll-out and the governance of the European Net-Zero Industry Academies in article 25(3).

Lastly, France Digitale fully supports the promotion of attracting skilled workers from third countries in article 25(6), as many startups are reliant on foreign workers in some highly competitive fields. As the Bluecard was revised in 2021, we encourage policymakers to build on this existing initiative and to create a special “young innovate company” clause that fasttracks the visa applications of foreign skilled workers to startups.

5. Innovation: Create sandboxes that are relevant for innovative companies

We welcome the creation of regulatory sandboxes and especially article 27 which gives priority access to SMEs. However, it remains unclear what these sandboxes will actually consist of, how companies will be able to activate them and, more fundamentally, in what way they will be useful to participating companies. Sandboxes should bring concrete competitive benefits to startups and SMEs and not be a duplication of existing innovation support structures.

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2 SOCIAL AND ECONOMIC PERFORMANCE OF FRENCH DIGITAL STARTUPS BAROMETER 2022. EY & France Digitale (2022)