

Combining decarbonisation and competitiveness

1. The climate transition is unavoidable but must be economically viable

1.1 Climate risks are greater than geopolitical instabilities and require long-term vision

A public representative highlighted that the costs of climate change are 10 times the yearly costs of COVID-19, which is unaffordable for countries and regions globally. The consequences of ignoring this will be dire. The investment environment demands certainty, a long-term perspective and ambition, whatever happens in Russia, Ukraine or the USA. Progress in other fields must not be delayed because of the important focus on the war in Ukraine and increased defence needs. The long-term perspective must not be lost. If the scientists and politicians are not aligned, the scientists should be believed.

1.2 Transition technologies exist and their industrial deployment remains fragile

The Chair noted that the global transition to a low-carbon economy faces significant headwinds, as highlighted by setbacks in prominent green industries. The bankruptcy of Northvolt and the postponement of Airbus's flagship hydrogen plane programme represent significant disruptions in the sector.

An official observed that some investment fatigue has been noted in the corporates in the last 24 months, for example in hydrogen projects and the car industry.

1.3 Europe's competitiveness depends on its resource efficiency and innovation capacity

A public representative advised that Europe should focus on intelligence, education and capacity to innovate. Leverage of private investment into innovations and businesses is still limited due to a lack of concerted action. Resource efficiency is another priority. Even without considering the environment, planetary boundaries constrain Europe's ability to access resources. Being able to create the same well-being, better profit for businesses and the same economic growth with a tenth of the resources will be hugely beneficial. With its limited resources, Europe needs to be intelligent and agile. Competitiveness will be impossible without a green deal and a clean industrial transition.

A market expert stated that decarbonisation is an enormous market that will have a very rapid expansion in the next 10 years. However, competence, skills and education can be lacking.

2. Market incentives and carbon pricing are key, but require balance and credibility

2.1 The Carbon Border Adjustment Mechanism (CBAM) and the Emissions Trading System (ETS) are crucial tools but must avoid distorting production chains

A policymaker commented that European companies are concerned about the impact of the carbon price on their competitiveness with the rest of the world. CBAM is a mechanism that makes it possible to maintain a price level in Europe that reflects carbon. Companies making investment decisions will have the benefit of knowing the price of carbon, ensuring a closer alignment between investment decisions of private companies and the most socially effective decision.

A market expert noted that the CBAM is currently being tested and is expected to be released in 2026. The carbon price will be imposed on specific sectors, such as steel, aluminium and fertilisers. Mechanical industries firms in Europe, particularly car makers, are aware that the carbon tax does not cover the whole value chain or semi-finished products.

An official stated that CBAM supports domestic firms and increases their competitiveness, as their competitors from third countries have to adjust. The Omnibus proposal from the Commission is welcomed, especially the de minimis threshold, which will assist companies that produce and export smaller amounts of goods. Despite this good beginning, the regulatory gap still needs to be addressed.

2.2 Carbon price signals are necessary but must be stable and transparent

A market expert observed that there is a price discrepancy between wind power and nuclear power, with wind power currently costing around €180 per megawatt and nuclear energy between €60 and €100. Until this difference is resolved, an entrepreneur that needs electricity will be in a difficult position and there will be a lack of emerging projects. A market is available, but entrepreneurs are still awaiting clarity around the long-term price of carbon or energy.

2.3 Tax policy and depreciation rules need to be reformed to support green investment

A policymaker noted that the Draghi report concludes that an additional 3% or 4% of gross domestic product (GDP) in investment will be needed for the green transition. The EU budget is 1% of GDP. Private investment is 20% of GDP. The tax system will not incentivise investment unless the depreciation rules are

reviewed and changed. The depreciation rules are more relevant than the corporate income tax rate.

3. Financial institutions must drive transition, but regulation must enable, not hinder

3.1 Private finance needs incentives, risk sharing and regulatory clarity

An industry representative explained that blended finance can mobilise capital to markets and projects that are very difficult to reach and where private sector participants are not comfortable with the risk. Blended finance can fill a gap. The current commitment of €120 billion annually in multilateral development bank (MDB) financing is 60% more than previously. However, the multiplier for deploying private capital on the basis of development finance remains low. Emerging market economies are starting from a different position and may have 2060 targets instead of 2050 targets.

An industry representative advised that investment appetite must be increased in both the financial sector and non-financial corporates. Investments require predictability and long term certainty. Blended finance is a very important tool for the financial sector.

A market expert emphasised that remuneration of risk, whether at the level of the institution, pension funds, local or regional funds or individual borrower, must be adequate in order to attract investment.

3.2 Overregulation risks undermining investment appetite and transition outcomes

An industry representative highlighted two issues with the EU rulebook: overreliance on sectors that are already green and an overwhelming amount of detail that can be counterproductive. Pricing instruments could be significantly more effective than heavy reporting burdens. The first part of the Omnibus package and simplification agenda will cause some friction for financial institutions, with a discrepancy between the requirements imposed on financial institutions and those imposed on non-financial corporates.

3.3 Consistent prudential frameworks and expanded MDB involvement are needed for global impact

An industry representative stated that the consistency of the prudential perspective must be improved. A global emerging markets database provides financial

institutions with information about default and recovery rates of some transactions, but the data needs to be more granular. Expanding the list of MDBs and development financing institutions that are eligible for specific risk treatment would be helpful.

4. Industrial strategy and public support are essential to unlock private capital

4.1 Strategic public funding and EU-level collaboration are catalysts

An official shared that Groupe Caisse des Dépôts has provided €150 million of sub debt to a €2 billion gigafactory producing low-carbon electric car batteries in the north of France. This project also received financing from the EIB and financial support from the European Union. This European collaboration was essential for the project's advancement. Groupe Caisse des Dépôts provides equity and quasi-equity financing in conjunction with its role as national implementing partner for the European Commission through the Alternative Fuels Infrastructure Facility (AFIF) under the Connecting Europe Facility (CEF).

4.2 Energy mix uncertainty and infrastructure bottlenecks limit project viability

A market expert observed that there are still uncertainties around the price of energy. In France, there is competition between renewables and nuclear. The government is trying to pass a 15-year programme for energy by decree. There is enormous pressure from lobbyists and industrialists to install extremely large offshore windmills, but there are only 10 ships in the world that are able to transport the material needed. A floating windmill project is currently exploring ways to reduce the price of wind energy, but this project is still only in the test stages.

4.3 Innovation capacity, skills and local project readiness are major bottlenecks

An official reported that it remains a challenging endeavour to raise financing for small modular reactors in nuclear power.

A market expert noted that the capacity of innovation can be improved by encouraging venture capital or encouraging universities to industrialise their research, particularly at the local level for small projects.